

## Table of Contents

<b>Executive Summary</b>	1
Overview	1
Findings	2
Report Objectives	3
Meeting the CPA-IG Mission	3
<b>Coalition Provisional Authority Inspector General Activities</b>	5
Overview	5
CPA-IG Organization	6
Legislation and Regulations	7
Website	10
<b>Audits</b>	11
Overview	11
Completed Audits	12
Current and Future Audits	23
<b>Investigations</b>	27
Overview	27
CPA-IG Case Summaries	27
Coordination with Other Federal Agencies	29
<b>Inspections, Policy, and Oversight</b>	31
Overview	31
Inspections	31
Hotline	31
Quality Assurance	33
<b>Coalition Provisional Authority Inspector General Initiatives</b>	35
Overview	35
Corporate Governance	35
Insurance and Security	36
Iraq Inspectors General Council	38
Iraq Financial Working Group	41
<b>Coalition Provisional Authority Activities</b>	43
Overview	43
Mission/Goals	43
Scope of the CPA Mission	43
CPA Activities	44
Oversight of Iraq Government Activities	45
CPA Transition	46

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<b>Sources and Uses of Funding for Iraq Relief and Reconstruction</b> .....	51
U.S. Appropriated Funds.....	52
CPA Operating Funds .....	56
Iraqi Funds.....	58
Data Clarification .....	70

<b>Contracts</b> .....	71
Overview .....	71
Competition.....	71
Data Integrity.....	73
Data Analysis.....	75
Estimate-to-Complete .....	76

## **Glossary**

## **Appendices**

- A: Statutory Requirements
- B: Cross-reference of Report to IG Act of 1978
- C: Memorandum of Agreement
- D: Iraq Relief and Reconstruction Funding 2 Allocation by Agency
- E: Seized Currency Expenditure Status
- F: Vested Currency Expenditure Status
- G: Iraqi National Budget
- H: International Reconstruction Fund Facility for Iraq
- I: List of International Pledged Support for Iraq Reconstruction (Madrid Pledges)
- J: List of Contracts
- K: DoD Status Report on Iraq

## **Endnotes**

## Message from the Inspector General of the Coalition Provisional Authority

I am pleased to submit to the Congress the Quarterly Report of the Office of the Inspector General, Coalition Provisional Authority (CPA-IG). This Report complies with the reporting requirements of Public Law 108-106 and the Inspector General Act of 1978 (Public Law 95-452).

In the 190 days that have passed since my appointment in January 2004, the CPA-IG has established a substantial oversight capability in Baghdad and Washington, D.C. We have produced 11 final audit reports, with 7 others in process, and we have developed and pursued numerous investigative leads. We conceived and implemented four complementary CPA-IG initiatives, and we successfully worked to establish an operational Inspector General system within the new Iraqi government.

This Report builds on the baseline of Iraq reconstruction data established in our March 30, 2004, Report, and provides a detailed overview of the CPA-IG's work during the reporting period. It includes summaries of audits and investigations, reviews of the CPA-IG's four initiatives, and a comprehensive update on Iraq reconstruction financial information. Since our Baghdad office became operational in March 2004, CPA-IG auditors and investigators have diligently pursued the mandate assigned by the Congress: overseeing CPA's management of Iraq reconstruction and reporting on expenditures supporting that effort.

Our reviews have revealed a mixed picture of the CPA's management of Iraq reconstruction programs and operations. We found problems in the CPA's financial management, procurement practices, and operational controls. These results are not surprising: the CPA faced a variety of daunting challenges, including extremely hazardous working conditions. We believe that these results should be viewed within a larger context that recognizes the many successes that the CPA achieved and the organization's general responsiveness to many of the issues raised during our reviews.

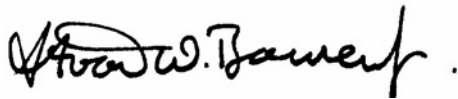
Based on our findings, improved management and controls can generate significant long-term benefits for Iraq reconstruction. The reconstruction effort in Iraq is still in its early stages, and reconstruction oversight has only just begun. Currently, 30.6% of the \$18.4 billion FY 2004 Iraq Relief and Reconstruction Fund has been obligated, and only 2.1% has been expended.

The transition to sovereignty and the dissolution of the CPA has affected how continuing oversight of Iraq reconstruction will be accomplished. The law that created the IRRF and the CPA-IG did not anticipate the dissolution of the CPA in June of this year. To address ambiguities in the law, the U.S. inspectors general associated with Iraq reconstruction entered into a Memorandum of Agreement (MOA) on June 25, 2004. Under this MOA, the

CPA-IG will conduct retrospective reviews of CPA programs, pursue additional reviews as requested by other inspectors general, and will cease operations on December 28, 2004. Our next and possibly final quarterly report will be issued on October 30, 2004, unless legislation continues our oversight responsibilities.

I appreciate and commend the integrity and cooperation of the CPA's Administrator, Ambassador L. Paul Bremer III, who was consistently supportive of our oversight mission. I look forward to continuing a close working relationship with John D. Negroponte, U.S. Ambassador to Iraq, who now manages the relief and reconstruction of Iraq.

Submitted on July 30, 2004.

A handwritten signature in black ink, reading "Stuart W. Bowen, Jr." with a period at the end. The signature is written in a cursive, flowing style.

Stuart W. Bowen, Jr.  
Inspector General

## Executive Summary

### Overview

In May 2003, the Coalition Provisional Authority (CPA) was created to oversee and operate the interim governing authority in Iraq and to establish appropriate governmental oversight. In November 2003, the Congress established the Office of the Inspector General of the Coalition Provisional Authority (CPA-IG) through Public Law 108-106. Under the mandate imposed by that Act, the CPA-IG has worked to promote the efficient, legal, and effective use of approximately \$49 billion in U.S. appropriated and other funds committed to Iraq relief and reconstruction by coordinating and conducting investigations and audits of the reconstruction effort.

Since beginning operations in late January 2004, the CPA-IG has focused its resources on high-value oversight issues to enhance the Iraq relief and reconstruction process. As of July 12, 2004, the CPA-IG was operating at nearly full strength, with 104 staff members (29 in Baghdad and 75 in Washington, D.C.) pursuing the CPA-IG's substantial oversight mission. In the short time that it has existed, the CPA-IG has:

- completed 11 audits, with 7 others ongoing and multiple audits planned
- closed or referred 42 investigations, with 27 others in progress
- received and processed 222 Hotline submissions
- launched four strategic initiatives
- trained 29 new Iraqi Inspectors General, covering all Iraqi ministries

During its first 190 days, the CPA-IG accomplished much. It issued the first comprehensive report to the Congress on Iraq reconstruction financial data; more than doubled the number of auditors, investigators, and inspectors providing oversight of the Iraq reconstruction program; and effectively transitioned its oversight structure intact after the June 28, 2004, transfer of sovereignty to the Iraqi Interim Government. The CPA-IG currently operates under a Memorandum of Agreement signed on June 25, 2004, by the Inspectors General of the CPA, Department of State, U.S. Agency for International Development, and Department of Defense (see Appendix C). This Memorandum was designed to ensure continued coordination of reconstruction oversight activities in Iraq.

Since delivering the March 30 Report, the CPA-IG has engaged in a wide range of oversight activities focused on Iraqi reconstruction. As of July 20, 2004, the CPA-IG has:

- initiated 18 audits and completed 11 final reports on the CPA's financial management, procurement practices, and management controls
- managed or coordinated 69 criminal investigations, of which 42 have been closed or referred to other U.S. agencies

- initiated inspections on Green Zone housing and contractor treatment of foreign workers
- opened case files on 222 Hotline complaints received by e-mail, telephone, and walk-ins, of which 98 remain open
- developed several CPA-IG initiatives, including Corporate Governance, Insurance and Security, the Iraq Financial Working Group, and the Iraq Inspectors General Council

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## Findings

These are some of the CPA-IG's specific findings to date:

- A CPA-IG audit found that the CPA Comptroller created policies and regulations that, although well intended, did not establish effective funds controls and accountability over \$600 million in DFI funds held as cash available for disbursement. This included \$200 million held by the Comptroller in Baghdad and over \$400 million with appointed agents. Although the CPA-IG did not identify any actual losses of cash, the \$600 million under the control of the Comptroller was susceptible to fraud, waste, and abuse.
- A CPA-IG audit of accountable property in Baghdad found that the management and record-keeping for accountable property needed improvement. CPA auditors in Baghdad estimated that accountable property items valued at approximately \$11.1–26.2 million may have been unaccounted for at the time of the audit.
- The CPA-IG identified 178 major contracts awarded in 2003 and 2004, each valued at more than \$5 million. The CPA-IG verified contract data for 164 of the 178 contracts. Of the 178 contracts, 14 were not located during the review. Based on a review of the 164 major contracts, the percentage of total value of contracts awarded through full and open competition increased from 25% in 2003 to 99% in 2004, while those awarded on a sole source basis decreased from 66% to 1%.
- A CPA-IG investigation uncovered evidence of manipulation in the award of a security contract. The resulting CPA general counsel review led to the revocation of the \$7.2 million award, recovery of the \$2.3 million advance payment, and the removal of a senior advisor.
- In the course of an ongoing fraud investigation, the CPA-IG found weak contract monitoring, including numerous deficiencies in a contract for oil pipeline repair. The Program Management Office issued a deduction of more than \$3.3 million for improper charges because contractors were not in the field conducting the work specified in the contract.

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## Report Objectives

This is the second of the CPA-IG's required Quarterly Reports to Congress. After proper notification, the CPA-IG moved the Quarterly Report's filing date by 30 days (to July 30) to synchronize with the quarterly progress reports on Iraq funding issued by the Office of Management and Budget. This Report fulfills the requirements of the 1978 Inspector General Act for semiannual reporting and of Section 3001, Public Law 108-106, for quarterly reporting to the Congress.

What follows is a multi-faceted review of the CPA-IG's accomplishments since March 30, 2004, including:

- a presentation of final audits completed as of July 30, 2004
- an overview of selected investigations and referrals as of June 30, 2004
- updates on the CPA-IG's four major initiatives: Corporate Governance, Insurance and Security, the Iraq Inspectors General Council, and the Iraq Financial Working Group
- a narrative of CPA and CPA-IG activities, including Iraq anti-corruption initiatives, the transfer of sovereignty to Iraq, comments on legislation, and organization updates
- a detailed summary and analysis of the sources and uses of the funds for the reconstruction of Iraq
- a series of contract tables that provides key information on major Iraq reconstruction contracts

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## Meeting the CPA-IG Mission

Within 45 days of its inception, the CPA-IG had established an active and significant presence in Baghdad and Washington, D.C., designed to deter fraud, waste, and abuse, and to engage auditors, investigators, and inspectors in the CPA-IG oversight mission. During its start-up phase, the CPA-IG coordinated with other inspectors general and audit agencies to enable the CPA-IG to develop timely and accurate information and recommendations on Iraq reconstruction.

Since March 30, 2004, CPA-IG's audits identified significant issues related to the CPA's procurement processes, program and financial management, and managerial controls. Of the 69 criminal investigations the CPA-IG has handled, most have related to alleged theft, fraud, waste, assault, and extortion. Several challenges have made the investigative efforts more difficult: Iraq is largely a cash-based economy, and daily life there is volatile and hazardous.



The CPA-IG took the lead role in the start-up and training of Iraqi inspectors general, meeting weekly with the appointees. As of June 17, 2004, all Iraqi ministry inspectors general had been set up to operate independently as an integral part of the Iraqi ministries. In addition, the CPA-IG coordinated and supported the June 2004 allocation of \$11 million for ministry IG budgets.

Results of the CPA-IG's four strategic initiatives have been generally positive. The Corporate Governance Initiative produced promising indicators that contractors involved in Iraq have implemented effective standards for self-disclosure and fraud prevention. The Iraq Inspectors General Council assembled 12 oversight organizations from U.S. and other governmental entities on a monthly basis, which provided collaboration and coordination on Iraq reconstruction oversight and prevented duplication of effort. The Iraq Financial Working Group in Baghdad successfully facilitated improved communication and cooperation among the various financial and management entities overseeing reconstruction on the ground in Iraq. It also provided an important forum for resolving financial issues within CPA.

The Insurance and Security Initiative encountered significant data and disclosure challenges. This initiative focused on reviewing whether private companies funded by the Iraq Relief and Reconstruction Act were adequately insured. It also looked at whether the method for acquiring workers' compensation was cost-effective.

Finally, the CPA-IG website and Hotline in the United States have been important sources for allegations of fraud, waste, and abuse.

# Coalition Provisional Authority Inspector General Activities

## Overview

Public Law 108-106 requires the Coalition Provisional Authority Inspector General (CPA-IG) to provide Congress with Quarterly Reports that include summaries of the activities of the CPA-IG. Most of the CPA-IG's activities this past quarter focused on audits, investigations, and CPA-IG independent initiatives. The following chapters provide details on these activities:

- **Audits:** summary of audits completed or in progress
- **Investigations:** summary of investigations
- **Inspections, Policy, and Oversight:** summary of inspections activity and the Fraud, Waste, and Abuse Hotline
- **Coalition Provisional Authority Inspector General Initiatives:** summary of CPA-IG initiatives
- **Coalition Provisional Authority Activities:** summary of CPA activities
- **Sources and Uses of Funding for Iraq Relief and Reconstruction:** analysis of financial information about the sources and uses of funds for the reconstruction of Iraq
- **Contracts:** data and analysis on the oversight of Iraq reconstruction contracting activity

This chapter provides information on the following activities for the last quarter:

- CPA-IG Organizational Update
- CPA-IG Comments on Legislation and Testimony
- CPA-IG Website

## ***Statutory Duties***

Public Law 108-106 and the Inspector General Act of 1978 impose these duties on the CPA-IG:

- Provide independent and objective leadership, coordination, and recommendations on policies designed to promote economy, efficiency, and effectiveness in the management of the CPA's Iraq reconstruction programs and supporting operations.
- Prevent and detect fraud, waste, and abuse.
- Conduct, supervise, and coordinate audits and investigations relating to the treatment, handling, and expenditure of appropriated funds by the CPA and its successor entities on Iraq reconstruction, and of the programs, operations, and contracts carried out in utilizing such funds.

- Conduct additional duties and responsibilities of Inspectors General as set forth in the Inspector General Act of 1978.
- Review existing and proposed legislation and regulations and make appropriate recommendations.
- Maintain effective working relationships with other federal, state, and local governmental agencies, and nongovernmental organizations (NGOs) regarding the mandated duties of the Inspector General.
- Inform the Administrator of the CPA, its successor entities, and the Congress of significant problems, abuses, and deficiencies; monitor the progress of corrective actions and implementation measures.
- Comply with the audit standards of the Comptroller General and avoid duplicating the activities of the Government Accountability Office (GAO, formerly known as the General Accounting Office).
- Report violations of law to the U.S. Attorney General and report on the prosecutions and convictions that have resulted.
- Maintain records for multiple purposes, including the use of funds for the reconstruction of Iraq, to facilitate future audits and investigations.
- Submit Semiannual Reports to appropriate committees of Congress that meet the requirements of the Inspector General Act of 1978. This Quarterly Report also meets the Semiannual Report requirements of the Act.

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## **CPA-IG Organization**

The CPA-IG office became operational on January 21, 2004, with a staff of two. As of March 20, 2004, the staff had grown to 58 people—40 in Washington, D.C., and 18 in Baghdad. By July 12, 2004, 104 people—75 in Washington, D.C., and 29 in Baghdad—were on the CPA-IG staff. The CPA-IG has acquired contractual support services to supplement staff efforts.

Figure 1 shows the organization of the CPA-IG office, as of July 12, 2004.

## CPA Inspector General's Office

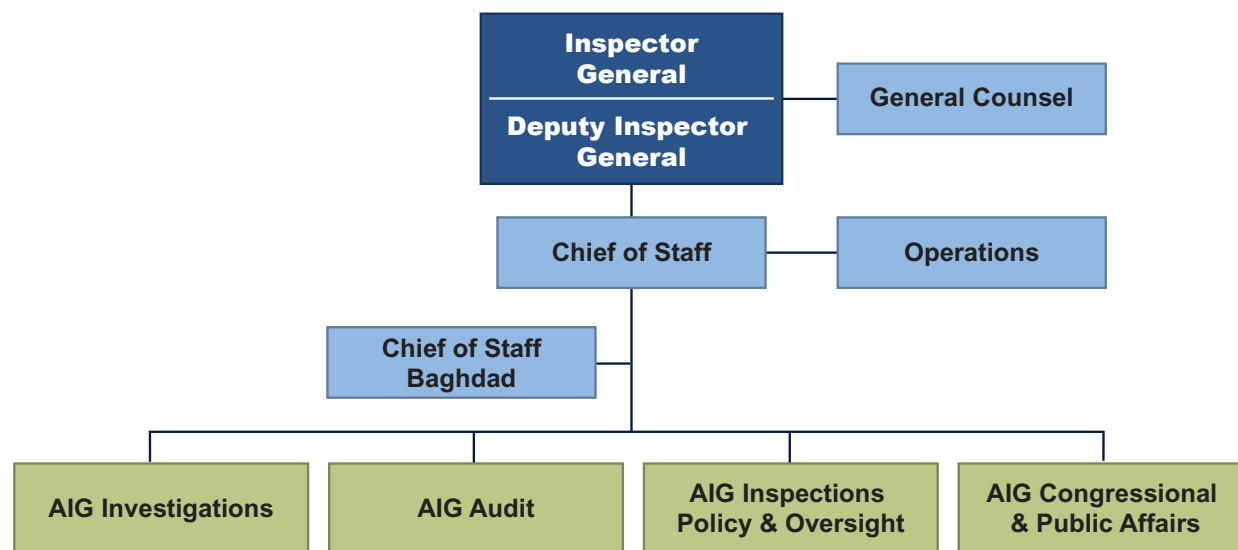


Figure 1: CPA Inspector General's Office

## Legislation and Regulations

Section 4(a) of the 1978 Inspectors General Act requires the [CPA] Inspector General to:

review existing and proposed legislation and regulations relating to programs and operations of [his office] and to make recommendations in the semiannual reports...concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations.

### *Existing Legislation*

Public Law 108-106, Section 3001, established the CPA-IG to serve as an independent and objective evaluator of the operations and activities of the CPA, to conduct audits and investigations, and to report quarterly to the Congress on expenditures for Iraq's relief and reconstruction. Subsection (o) of Section 3001 specifies that "the Office of Inspector General shall terminate 6 months after the authorities and duties of the Coalition Provisional Authority cease to exist."

In anticipation of the CPA's dissolution and the CPA-IG's eventual termination on December 28, 2004, the Inspectors General (IGs) of the Department of State (DoS) and Department of Defense (DoD), the U.S. Agency for International Development (USAID), and the CPA entered into a Memorandum of Agreement (MOA) on June 25, 2004. This MOA addresses the responsibilities of and coordination among these various IGs regarding

oversight of Iraq reconstruction and the supervisory reporting relationships of the CPA-IG. The parties also agreed to develop recommendations for further statutory changes or administrative action. (The MOA is provided in Appendix C.)

The MOA provides that:

- The CPA-IG may initiate new audits and investigations relating to programs and operations of the CPA conducted before its dissolution.
- The IGs may request the CPA-IG to initiate audits and investigations consistent with Public Law 108-106.
- The CPA-IG will continue to submit reports under Public Law 108-106.
- The CPA-IG will endeavor to complete all investigations initiated before the dissolution of the CPA by December 28, 2004.
- After CPA's dissolution, the IGs of the DoD, DoS, USAID, and other government entities will be responsible for initiating audits and investigations related to their programs and operations in Iraq.

In light of the transfer of authority in Iraq and the absence of any more specific statutory direction, the CPA-IG agreed to this MOA as a necessary and responsible means for ensuring continued oversight.

### ***Proposed Legislation***

During this reporting period, two legislative measures were proposed that could affect the oversight of Iraq reconstruction programs and operations. These measures would modify the jurisdiction, designation, reporting relationships, and other matters related to the CPA-IG. These provisions are contained in:

- Defense Department FY 2005 Authorizations Bill (S. 2400, passed by the Senate)
- FY 2005 Appropriations for Foreign Operations, Export Financing, and Related Programs (H.R. 4818, passed by the House)

Table 1 provides an analysis of the proposed statutes:

Bill	S2400	HR4818
<b>Approach</b>	Amends P.L.108-106 to redesignate and modify authorities relating to CPA-IG	Modifies references to P.L. 108-106 to redefine terms for purposes of establishment of new office
<b>Name</b>	Special Inspector General for Iraq Reconstruction	Inspector General for Iraq Reconstruction
<b>Purposes</b>	Changes oversight jurisdiction from operations and programs of CPA to those funded by IRRF in P.L. 108-106	Changes oversight jurisdiction from operations and programs of CPA to those funded by IRRF in P.L. 108-106 and P.L. 108-11
<b>Supervision</b>	Secretaries of Defense and State	Secretary of State
<b>Authorities</b>	Specific authority for criminal investigations	Same as P.L. 108-106
<b>Coordination</b>	DoD, DoS, and USAID IGs	DoD, DoS, USAID, and any other IGs with functions related to IRRF
<b>Reports</b>	Modifies reporting cycle for quarterly and semiannual reports	No change
<b>Funding</b>	Same as P.L.108-106	Transferred to Office of IG (DoS)
<b>Termination</b>	10 months after 80% of IRRF obligated	September 30, 2007
<b>Other</b>	None	Changes Sec. 2207 reporting responsibility to DOS

**Table 1: Comparison of Key Changes**

Generally, either of these provisions would:

- ensure continued independent oversight of Iraq reconstruction activity throughout the period of the greatest IRRF financial and contracting activity
- enable continued evaluation of IRRF programs and operations by CPA-IG auditors and investigators

### ***Regulations***

The CPA-IG reviewed CPA regulations and orders that were relevant to specific CPA-IG audits, investigations, inspections, or other reviews. The CPA regulations and orders, which were designed to implement the Law of Administration for the State of Iraq for the Transitional Period, were rescinded, amended, or transferred after the transition to full governing authority.

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## **Website ([www.cpa-ig.org](http://www.cpa-ig.org))**

The CPA-IG developed its website in March 2004. The Defense Technical Information Center hosts the site and provides technical and development assistance. The CPA-IG designs, develops, and approves all content and acts as Webmaster for the site. The site contains information about the CPA-IG; procedures for reporting fraud, waste, and abuse (Hotline); CPA-IG initiatives; current news; frequently asked questions and answers; and Freedom of Information Act (FOIA) contact information. The website also provides CPA-IG reports in English and Arabic.

# Audits

## Overview

This chapter provides summaries of published audit reports on financial management, acquisition, and CPA operations. A chart at the end of this chapter lists the audit reports and status of recommendations.

Public Law 108-106 requires the Coalition Provisional Authority Inspector General (CPA-IG) to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the CPA and the Iraq reconstruction program. To meet that mandate, the CPA-IG established a staff of auditors primarily through details from Offices of Inspectors General in the Department of Defense (DoD), Department of State (DoS), Air Force Audit Agency, Naval Audit Service, and Army Audit Agency. These auditors have a wealth of experience and expertise in financial and acquisition auditing.

In March 2004, the CPA-IG deployed 12 auditors to Iraq, where they established the Baghdad office and developed an audit plan. For this reporting period, the CPA-IG has issued 11 final reports that review CPA programs in financial management, procurement, and operations. Table 2 contains a summary of all completed audits. The CPA-IG has one review and seven audits ongoing. All of the audit work was done under generally accepted government auditing standards prescribed by the U.S. Comptroller General.

The audit reports issued during this reporting period contain 22 recommendations. As of July 30, 2004, 16 of the recommendations had been satisfactorily addressed, but 6 still require management to complete corrective actions. The CPA-IG issued one audit report that identified potential monetary benefits of at least \$3.6 million (this complies with Section 5(a) (8), 1978 Inspector General Act). Management has implemented the recommendations that will result in future cost savings.

At the end of June 2004, the CPA-IG had 30 auditors on staff—15 in Baghdad and 15 in Washington, D.C. In a relatively short time, the audit staff has worked diligently and swiftly to conduct audits and produce reports that address key areas of the CPA's financial and acquisition management of the Iraq reconstruction program.



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## Completed Audits

### *Audits—Financial Management*

#### **Coalition Provisional Authority Coordination of Donated Funds**

Report Number 04-001, issued June 25, 2004

*The objective of the audit was to determine whether the CPA had processes that provide adequate transparency and coordination in the allocation of donated funds to the reconstruction of Iraq.*

During the audit, the CPA-IG found that donated funds are maintained by donor countries and international entities such as the World Bank and the UN. The CPA developed the processes by which reconstruction priorities were established and approved. The CPA-IG sought to determine whether these processes provide adequate transparency and coordination in the allocation of donated funds to the reconstruction of Iraq.

The Ministry Planning and Development Cooperation (the Ministry) was responsible for promoting international assistance to Iraq and was the primary liaison with current potential international donors. To secure the confidence of foreign entities and the Iraqi people regarding the use of these funds, the Ministry needed a transparent process for allocating international assistance. The World Bank has reported that more than \$8 billion has been pledged by countries other than the United States to reconstruct Iraq. Also, more than \$1 billion in donor funds has been pledged to the International Reconstruction Fund Facility for Iraq. These proceeds are held in two trust funds, one by the UN and one by the World Bank.

The Ministry, working closely with the CPA Senior Advisor, assembled a comprehensive list of projects to be funded with international donations. Although the process for assembling and approving these projects for consideration was transparent, no process was developed for tracking or coordinating internationally funded projects with other CPA reconstruction efforts. The Ministry did not provide adequate guidance to the other ministries for maintaining adequate support documentation to describe reconstruction efforts funded from donated funds.

This lack of documentation can cause three problems. First, the international community and the Iraqi people may have less confidence in the allocation of donated funds to high-priority reconstruction projects. Second, foreign entities may not have the necessary confidence to donate further. Third, important information on internationally funded projects may be lost or unavailable.

The audit recommended that the CPA Senior Advisor coordinate with the Ministry to document procedures for the ministries:

- to identify and track projects funded from donations
- to account for donated equipment and material
- to submit quarterly updates on the progress of projects financed with donated funds

The audit also recommended that the CPA Senior Advisor coordinate with the Program Management Office (PMO) to develop and document a Memorandum of Understanding that describes how the offices will share information on reconstruction projects.

*The CPA Senior Advisor's Office did not concur or was non-responsive to the recommendations. The PMO concurred and was responsive to the recommendation.*

**Oil for Food Cash Controls for the Office of Project Coordination in Erbil, Iraq**  
Report Number 04-007, issued July 26, 2004

*The overall objective of the audit was to determine whether the CPA had instituted and used appropriate policies and procedures in accounting for, handling, monitoring, and controlling the transfer of approximately \$1.5 billion in Oil for Food (OFF) money to the Kurdish Regional Government.*

This report addresses the policies and procedures for transfer to and control of funds in Erbil, Iraq. When the UN left Iraq in November 2003, it left behind many ongoing OFF projects and active contracts. The CPA Office of Project Coordination (OPC) was established in Erbil, Iraq, to manage the OFF program in northern Iraq. The OPC was charged with assessing the status of ongoing projects, taking control of the active contracts, and facilitating the performance of and payments to the contractors. The estimated cost to complete all projects in the three northern governorates of Iraq was approximately \$1.5 billion, according to the Counselor for the Ministry of Trade and Standards. At the time, the Iraqi banking system could not handle electronic funds transfers; therefore, funds were physically transported from one location to another. Because such large amounts of cash were being transferred to northern Iraq, the CPA-IG was asked to review cash-handling procedures for the funds.

The OPC established written policies and procedures for petty cash, check, and wire transfer payments. The audit determined that:

- The policies and procedures prescribed and used in accounting for, handling, monitoring, and controlling those payments satisfied government accounting standards.
- Sufficient controls were in place to handle cash transfers without a high risk of loss. However, the OPC changed the part of its procedures for transfer of funds within Erbil. Instead of using its own staff, the OPC contracted with a local courier to

transfer funds in Erbil, without reviewing and approving the courier's transfer procedures.

The audit recommended that the Deputy General of the OPC should not use local courier cash-transfer services until its staff has had the opportunity to obtain, review, validate, and approve the courier's cash transfer procedures. The Deputy General did not concur with the recommendation, stating that the Kurdish Regional Government and UN had used the couriers in the past and recommended them highly.

*The CPA-IG believed it would have been prudent to review and validate the courier's cash handling procedures, but the cash transfers have been completed. The recommendation is no longer applicable. The report makes no further recommendation.*

### **Coalition Provisional Authority Control Over Seized and Vested Assets**

Report Number 04-008, issued July 28, 2004

*The objective of this audit was to review the process for inventorying, safeguarding, and using the personal and real property seized by the coalition forces during and after combat operations. The CPA-IG also reviewed the CPA Comptroller's Office management of the expenditure of seized and vested funds.*

When major combat operations ended in Iraq in May 2003, the CPA was tasked with ensuring that the seized and vested assets of the old Iraqi regime were accounted for, safeguarded, and used on behalf of the Iraqi people. Two CPA offices had primary control and responsibility over these assets. The CPA Facilities Management Office (FMO) controlled all non-cash seized assets, and the CPA Comptroller's Office maintained the seized and vested cash assets.

The audit determined that:

- The FMO did not establish adequate controls over seized non-cash assets. Seized assets were issued to individuals in the CPA for their use.
- Some hand receipts were not retained.
- The FMO had not conducted an inventory or established an accurate record of seized and vested non-cash assets.
- Accountable officers were taking responsibility for the non-cash assets without benefit of a joint inventory with the outgoing accountable officer.
- Approval and supporting documentation for some disbursements of seized and vested funds was not on file at the time of the audit.

The audit did find, however, that seized and vested funds were used to benefit to the Iraqi people in some form.

The audit made three recommendations:

1. The FMO should review all available hand receipts and verify that the seized and vested non-cash assets issued to CPA officials are properly accounted for.
2. The FMO should turn over the receipts to the Ministry of Culture, who is now responsible for these assets.
3. The CPA Comptroller should review payments made with seized and vested funds to ensure that the payments are adequately supported and approved.

*Management concurred with the findings and recommendations and is taking actions to implement them. The recommendations are closed.*

### **Coalition Provisional Authority Comptroller's Cash Management Controls Over the Development Fund for Iraq**

Report Number 04-009, issued July 28, 2004

*The overall objective of the audit was to determine whether the CPA Comptroller instituted and used appropriate policies and procedures in accounting for, handling, monitoring, and controlling DFI funds held as cash available for disbursement.*

The CPA Comptroller was appointed by the Administrator of the CPA as the financial manager of the Development Fund for Iraq (DFI). The DFI was established by UN Security Council Resolution 1483 to provide transparent distribution of funds to benefit the people of Iraq. It was funded primarily by proceeds from Iraqi oil and gas exports and was intended for meeting the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the Iraqi people. CPA Regulation 2 provided policy and procedures for the administration, use, accounting, and auditing of the DFI.

The audit found that the CPA Comptroller created policies and regulations that, although well intended, did not establish effective funds controls and accountability over \$600 million in DFI funds held as cash available for disbursement. This included \$200 million held by the Comptroller in Baghdad and over \$400 million with appointed agents. The audit found that:

- Cash accountability did not reconcile.
- Physical security over cash was inadequate.
- Fund agent records were not complete.
- Fund managers' responsibilities and liabilities were not properly assigned.

Although the CPA-IG did not identify any actual losses of cash, the \$600 million under the control of the Comptroller was susceptible to fraud, waste, and abuse.

The CPA-IG made five recommendations to improve funds control and accountability. The recommendations called for management to implement a single set of existing accounting standards, standardize fund clearing requirements, develop adequate internal controls and oversight, provide clear guidance on funds accountability, and ensure that fund agent appointment letters are consistent with current guidance.

*Management did not concur with portions of the findings, but did concur with all five recommendations and plans to take corrective actions. The recommendations are closed.*

### **Accountability and Control of Material Assets of the Coalition Provisional Authority in Baghdad**

Report Number 04-011, issued July 26, 2004

*The objective of the audit was to evaluate the effectiveness of policies, procedures, and property accountability measures used to account for and control materiel at CPA locations, offices, warehouses, headquarters, and branch office locations in Baghdad.*

Accountable property for the CPA in Baghdad totaled over 20,500 items valued at \$61.1 million. To adequately manage this large array of materiel, the CPA assigned responsibility to a contractor, Kellogg Brown and Root, Inc., as part of Task Order 44 under contract DAAA09-02-D-0007. The contractor was required to safeguard CPA property in its possession through the contractor's property control system. The contractor managed all aspects of materiel support to the CPA: ordering, controlling, and accounting for property furnished by the government and acquired by the contractor.

The CPA-IG determined that at the time of the audit:

- The management of accountable property needed improvement.
- Accountable property records were not accurate or complete.
- The contractor did not accomplish physical inventories in a timely manner.
- The Defense Contract Management Agency (DCMA) was unaware of potential errors in the contractor's property records.

Based on a statistical sample, the audit estimated with 90% confidence that between 5,531 (27%) and 8,419 (41%) of the accountable property valued at between approximately \$11.1 and \$26.2 million may be unaccounted for. The CPA-IG estimated that at least 1,425 items may be on hand but not recorded in the inventory records. The contractor has begun to take corrective action to strengthen controls over accountable property. Since the audit was completed, DCMA Baghdad and the contractor reported that many of the missing items in the sample have been accounted for.

The audit recommended that the DCMA Property Administrator conduct a thorough review of CPA property in Baghdad to locate missing property. On completion of the review, the

DCMA should seek to recover the cost of missing equipment from the responsible personnel. Further, the DCMA should initiate appropriate recovery actions if the contractor has not fulfilled its contractual obligations. Finally, the audit recommended that the Property Administrator ensure that an accurate property control system analysis is performed after ongoing corrective actions are completed.

*The Defense Contract Management Agency did not concur with the findings, asserting that the majority of the items reported as unaccountable for in the sample were subsequently located and should not have been considered errors. However, because those items were not located during the audit inventory, they remain unverified by the CPA-IG. Management indicated that corrective actions are planned that are generally responsive to our recommendation. These actions focus on improving property record accuracy. However, management did not comment on the recommendation to recover the cost of missing equipment. The CPA-IG continues to believe that the recommendation is valid and will work with DCMA representatives to reach a mutually satisfactory resolution.*

### ***Audits-Procurement***

#### **Federal Deployment Center Forward Operations at the Kuwait Hilton**

Report Number 04-003, issued June 25, 2004

*The objectives of this review were to determine whether the CPA efficiently and effectively operated the Federal Deployment Center (FDC) at the Kuwait Hilton (FDC-Forward). Specifically, the objectives were to determine whether FDC-Forward (1) met the purpose for which it was established by Department of Army Execution Order and (2) established policy to limit the use of its facility to authorized personnel.*

FDC-Forward provided a location for the reception, further deployment training, and re-deployment of executive personnel to Iraq. The total annual cost for this operation is more than \$11 million. To establish the center, the Army awarded a task order on its Logistics Civil Augmentation Program (LOGCAP) contract.

The LOGCAP (DAAA09-02-D-007) is a global contract that provides civilian augmentation to support U.S. Army operations. For each significant event, the Army issues a task order to address the specific contract terms. The Army awarded Task Order 63 to establish FDC-Forward at the Kuwait Hilton as the reception location for “executive personnel deploying in support of operations in Iraq.”

The FDC-Forward operation met the purpose for which it was established in the Department of Army Execution Order; however, the CPA had not issued formal policies for utilization, which caused the inefficient use of CPA resources. Specifically, the CPA did not:

- provide adequate oversight of the operation to ensure that CPA costs were limited to those for authorized users



- have a defined policy identifying those persons eligible to use the FDC-Forward Kuwait Hilton facility (Without an established policy, contractor employees allowed unauthorized persons to use the Kuwait Hilton at the expense of the CPA.)

The CPA-IG made eight recommendations to the CPA Chief of Staff to improve the effectiveness of FDC-Forward operations. During the audit, the CPA Chief of Staff fully implemented seven of the eight recommendations. The Chief of Staff is in the process of implementing the remaining recommendation, and should realize a minimum annual potential monetary benefit of \$3.6 million.

*The CPA-IG accomplished this review at the request of the CPA Deputy Chief of Staff. CPA officials agreed with the findings and recommendations and immediately began to take corrective actions. The CPA-IG will follow up to ensure that management fully implements corrective actions.*

### **Task Orders Awarded by the Air Force Center for Environmental Excellence in Support of the Coalition Provisional Authority**

Report Number 04-004, issued July 28, 2004

*The objective of the audit was to evaluate procedures used by the CPA, the CPA PMO, and the Air Force Center for Environmental Excellence (AFCEE) to award Iraqi reconstruction task orders under the AFCEE Indefinite Delivery/Indefinite Quantity (ID/IQ) contracts. Specifically, the CPA-IG evaluated those policies and procedures associated with acquisition planning, source selection, use of competition, and contract negotiation.*

The mission of the AFCEE is to provide technical and professional services in environmental and installation planning and engineering, and military housing construction and privatization. Throughout the 1990s, construction became a larger part of the AFCEE mission. As of May 31, 2004, the AFCEE had awarded task orders valued at \$481.2 million to support the reconstruction of Iraq. The AFCEE made these awards at the request of the CPA and with the specific approval of the DoD. With the assistance of the Army Corps of Engineers, the AFCEE oversees the contractor execution of these contracts.

The AFCEE's role in the reconstruction of Iraq continues to expand beyond the original vision of the DoD and CPA. Last year the CPA had urgent reconstruction requirements, estimated at \$238.6 million, for the New Iraqi Army; the DoD authorized the AFCEE to support those requirements. As of May 31, 2004, the AFCEE had awarded \$481 million in task orders to support reconstruction requirements of the New Iraqi Army. However, the AFCEE has also awarded three task orders valued at \$42 million and has four pending task orders, estimated at \$47 million, for reconstruction work not related to New Iraqi Army requirements. The AFCEE's role has expanded because the CPA and AFCEE have not agreed on the extent and nature of the work that AFCEE can rightfully and effectively provide. As a result, the AFCEE's role in awarding task orders on behalf of the CPA is not

clearly defined, and the continued use of AFCEE contract vehicles provides less transparency to the public. An agreement between the CPA and AFCEE would have clarified the scope of the AFCEE support and improved transparency in the task order award process.

The audit recommended that the CPA or successor agencies with responsibility for reconstruction of Iraq should execute a Memorandum of Agreement with the AFCEE to clarify:

- the scope of projects that the AFCEE would accomplish
- contractor requirements, such as small or minority businesses
- mutual contract administration responsibilities

The Memorandum of Agreement should be updated as necessary to accurately reflect the Project and Contracting Office and AFCEE business relationship.

*Air Force and Project and Contracting Office officials concurred with the recommendation and are taking corrective action to implement the recommendation.*

#### **Award of Sector Design–Build Construction Contracts**

Report Number 04-005, issued July 23, 2004

*The overall audit objective was to evaluate the procedures used by the CPA, the CPA PMO, and supporting contracting activities when awarding sector contracts. Specifically, the CPA-IG evaluated whether competitive procedures were used to award contracts to rebuild the Iraqi infrastructure.*

To help rebuild the Iraq infrastructure, DoD Components awarded 12 design-build construction contracts, valued at \$7 billion or more. Two contracts were awarded in January 2004 to rebuild the oil sector, and ten contracts were awarded in March 2004 for the remaining sectors. Each contract was an indefinite delivery indefinite quantity contract. This type of contract provides for the issuance of task orders on either a cost reimbursement or fixed price basis. This contracting vehicle was used to minimize the costs of mobilizing and de-mobilizing contractors and administering the contracts, and to facilitate training and transition of responsibility to the Iraqi people. Each contractor will perform a portion of the work within a sector and will not compete for work performed within the scope of its contracts.

The audit determined that the DoD Components used competitive procedures to award the design-build construction contracts for rebuilding the Iraqi infrastructure. However, except for the two contracts for the oil sector, the contract awards were limited to sources from designated countries, including the United States, Iraq, coalition partners, and force-contributing nations. On awarding these contracts, Army components properly advertised the requirements, developed source selection plans, and had sufficient controls



to ensure that the plans were followed. As a result, the U.S. government obtained the benefits of competitive contracting, but the PMO faces challenges in ensuring that tasks performed under these contracts fully meet the U.S. government's requirements and are economically and efficiently executed.

*Management agreed with the conclusions presented in the report. The report makes no recommendations.*

### **Corporate Governance Programs for Contractors Providing Goods and Services for Iraq Relief and Reconstruction Efforts**

Report Number 04-006, issued July 21, 2004

*The objective of this review was to determine the adequacy and effectiveness of corporate self-governance programs of contractors awarded contracts or task orders funded by the Emergency Supplemental Appropriation Act for the Defense and Reconstruction of Iraq.*

The Iraq reconstruction program is the largest effort of its kind undertaken by the United States since the Marshall Plan, and it will affect all parts of Iraq. Although the U.S. Army's Project and Contracting Office is responsible for the overall program, contractors have an important responsibility to conduct programs and projects economically, efficiently, and in compliance with laws and regulations. Corporate governance is a key internal control to help ensure that the country and people of Iraq receive the greatest benefit from the funds provided for reconstruction.

Corporate governance affects how business activities are structured, objectives established, and risks assessed. Effective corporate governance fosters an enterprise-wide commitment to integrity, effective controls, and ethical business practices and behavior. The key tenets of corporate governance are integrity and ethical values, codes of conduct, and senior management support of the program.

The review of corporate governance programs of five major Iraq reconstruction contractors found that the contractors had viable programs. Corporate governance policies and programs resonate from the most senior officers of these companies, and all demonstrated a commitment to ethical and corporate excellence in the reconstruction of Iraq. Using their collective past experiences in Iraq and the Middle East, the companies are taking unique measures to adapt their respective corporate governance programs to reduce the risk of fraud, waste, and abuse. Challenges remain as the pace of reconstruction accelerates; however, addressing these risks is fundamental to the application of efficient systems of corporate governance.

*A draft of this report was provided to the contractors that the CPA-IG visited. Contractor comments were considered in preparing the final report. This report makes no recommendations.*

## **CPA Contracting Processes Leading Up To and Including Contract Award**

Report Number 04-013 issued July 27, 2004

*The CPA-IG accomplished this self-initiated audit to evaluate the procedures used by the CPA Contracting Activity-Baghdad to award contracts. Specifically, the CPA-IG evaluated those policies and procedures associated with acquisition planning, source selection, use of competition, and contract negotiation.*

The CPA issued Memorandum 4 to establish procedures that apply to the execution of contracts and grants using Iraqi funds for the benefit of the Iraqi people. Although the use of Iraqi funds is not subject to the same laws and regulations that apply to U.S. appropriated funds, the CPA was expected to manage Iraqi funds in a transparent manner that fully met the CPA's obligations under international law, including UN Security Council Resolution 1483.

The audit found that the CPA's Contracting Activity did not consistently provide oversight and technical supervision to the contracting officers awarding contracts on behalf of the CPA and Iraqi ministries. Specifically, the Procuring Contracting Officer (PCO) did not ensure that:

- management information was accurate
- contract files contained all the required documents
- a fair and reasonable price was paid for the services received
- contractors were capable of meeting delivery schedules
- contractors were paid in accordance with contract requirements

The CPA-IG made one recommendation to the Head of Contracting Activity to attempt to recoup unsupported costs associated with a contract reviewed during the audit.

*CPA contracting officials generally agreed with the findings and have begun to take corrective action to strengthen contracting policies and procedures; however, they did not concur with the recommendation that the Head of the Contracting Activity request the Defense Contract Audit Agency to perform a post-award audit of a contract for currency exchange. The CPA-IG continues to believe that the recommendation is valid and will work with the Head of the Contracting Activity to reach mutually satisfactory resolution.*

### ***Audits-CPA Management***

#### **Management of Personnel Assigned to the Coalition Provisional Authority in Baghdad, Iraq**

Report Number 04-002, issued June 25, 2004

*The objectives of this review were to determine whether CPA had control over and knowledge of the number of civilians assigned to CPA in Baghdad, including both U.S.*

*government and contractor personnel and whether there were lessons to be learned from CPA's management of civilian personnel in a post-war coalition environment.*

The deployment of civilian and military personnel to support the CPA in the post-war environment in Iraq began in April 2003. A host of federal agencies, military organizations, and non-government organizations (NGOs) operated in the CPA area of responsibility. Until February 2004, the Military Personnel Center tracked all government personnel (military and civilian). However, by the end of January 2004, many distinct personnel-tracking mechanisms appeared that were intended to provide accountability for select groups of individuals. Also, contractors were tracking their own employees. As of March 8, 2004, the CPA believed that it had 1,196 personnel assigned to CPA operations in Baghdad. The CPA had been authorized 2,117 positions. The 1,196 included all military and civilians assigned to CPA operations in Baghdad (including contractors working in the palace on infrastructure contracts).

The review disclosed that the CPA did not have an accurate count of civilian personnel assigned to the CPA operations in Baghdad. In March 2004, CPA officials believed that their rosters were 90-95% accurate. With an estimated population of 1,196 government and contractor personnel assigned to the CPA Baghdad, probably more than 100 people may not have been properly accounted for. Several factors contributed to this condition:

- Some people circumvented the primary control system set up to identify and track new people reporting to CPA Baghdad.
- Components within CPA Baghdad did not adhere to the policies and procedures established by CPA officials when deploying civilians to Baghdad.
- The short-term nature of assignments, generally four to six months, presented a management challenge.
- The lack of an interlinked civilian personnel database hindered the efficient management of the rapid deployment of civilians from various agencies and contractors who were needed to meet the CPA mission.

The review included lessons learned, but made no recommendations. The CPA-IG understands that working groups have been established to explore potential lessons learned from the operations of the CPA during its relatively brief existence. The CPA-IG is providing this assessment to the working groups for their consideration and recommends that they look to the Modern Defense Civilian Personnel Data System of the Department of Defense as a way to better support future joint contingency operations like the CPA.

*The CPA-IG undertook this review to respond to concerns about the apparent lack of controls over the identification and tracking of personnel being deployed to CPA Baghdad. Comments on the draft of this report were not required; therefore, no additional comments are necessary.*

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## **Current and Future Audits**

This section presents a summary of CPA-IG's current and future audits.

### ***Current Audits***

As of July 30, 2004, seven CPA-IG audits and one review are underway in various stages of completion.

#### **Review of Insurance and Security for Contractor Employees**

This audit will determine:

- whether effective controls are in place to ensure that companies provide their employees with adequate and legally compliant insurance to cover injuries or deaths that occur while performing under Iraq reconstruction contracts
- whether the method of acquiring insurance and security for contractor operations in Iraq is cost-effective and promotes competition

The fieldwork is complete, and a draft report is being prepared. A final report is expected to be issued in August 2004.

#### **CPA Controls Over Funds Provided to Interim Iraqi Ministries through the National Budget Process**

This audit will determine whether the CPA established and implemented adequate managerial, financial, and contractual controls over DFI funds that were provided to interim Iraqi ministries through the national budget process.

The fieldwork is complete. A draft report has been provided to management for comments. A final report is expected to be issued in August 2004.

#### **Audit of U.S. Army Corps of Engineers Indefinite Delivery Indefinite Quantity Contracts Available for Use by the Coalition Provisional Authority for Iraq Relief and Reconstruction**

This audit will determine:

- whether the U. S. Army Corps of Engineers contracts available for use by the Project and Contracting Office for Iraq reconstruction were awarded with full and open competition
- whether the contracts are reasonable, economical, and efficient

- whether adequate internal controls are in place to ensure compliance with the original intent of the contract and whether task orders conform to the contract statement of work

The fieldwork is nearing completion, and drafting of the report is ongoing. A final report is expected to be issued in August 2004.

#### **Audit of Accountability and Control of Material Assets of the Coalition Provisional Authority in Kuwait**

This audit will evaluate the effectiveness of policies, procedures, and property accountability measures used to account for and control materiel at CPA locations, offices, warehouses, headquarters, and branch office locations in Kuwait.

The fieldwork is complete, and the draft report is being prepared. A final report is expected to be issued in August 2004.

#### **Assessment of CPA PMO Project Management Controls Used for Iraq Relief and Reconstruction**

The audit will determine the effectiveness of policies, procedures, and internal controls to manage construction contracts being completed under the Iraq Relief and Reconstruction Fund. The fieldwork is complete, and the CPA-IG is preparing a memorandum reporting the results of the review.

#### **Services Provided Under Task Order 44 of the Logistics Civil Augmentation Program (LOGCAP) Contract**

The audit will determine whether the CPA:

- managed Task Order 44 to ensure that required services were properly authorized, performed, and received
- established policies to limit contract requirements and costs to only those specifically authorized in the contract
- effectively managed task order costs

The field work is ongoing, and a final report is expected to be issued in August 2004.

#### **Assessment of the Timeline of Execution of the \$18.4 Billion Iraq Relief and Reconstruction Fund Appropriated via Public Law 108-106**

The audit will assess the timeline for planning, programming, and executing the Iraq Relief and Reconstruction Fund. The audit will include actions taken by the Office of

Management and Budget, DoD, and the PCO. The fieldwork is ongoing, and a final report is expected to be issued in August 2004.

### **Audit of the Award of Contract Number W911SO-04-C-0003 to Aegis Defense Systems Limited**

The objective of the audit is to evaluate the awarding of the PCO's security contract to Aegis Defense Systems Limited. The audit will evaluate procedures that the U.S. Army Northern Region Contracting Center used to plan the acquisition, select the source, and negotiate the contract. The audit was requested by the Deputy Chief of Mission in Iraq. The fieldwork is ongoing, and a final report is expected to be issued in August 2004.

### ***Future Audits***

The CPA-IG's next phase of audits will begin in August 2004. They will continue to focus on the Iraq relief and reconstruction program and will include both the reconstruction and non-reconstruction aspects of the program:

- The CPA-IG will conduct an audit of the use of the project management contracts awarded to assist the PCO in administering the reconstruction program.
- An assessment will be made of the post-transition program, financial, and managerial risks that may impact Iraq reconstruction.
- Several audits are planned to assess PCO management of task order negotiations, the award fee process, and how reconstruction project and program cost estimates-to-complete are prepared.
- The CPA-IG will undertake a series of performance audits of selected reconstruction and non-reconstruction projects to assess economy and efficiency and program results in each of the six sectors: Oil; Electricity; Public Works and Water; Communications and Transportation; Building, Education, and Health; and Security and Justice.

The CPA-IG will also conduct audits of selected aspects of contract administration.

	Report Number	Audit Title	Date Issued	Recommendation		
				Total	Closed	Open
1	04-001	CPA Coordination of Donated Funds	25-Jun-04	2	0	2
2	04-002	Management of Personnel Assigned to the CPA in Baghdad, Iraq	25-Jun-04	0	-	-
3	04-003	Federal Deployment Center Forward Operations at the Kuwait Hilton	25-Jun-04	8	7	1
4	04-004	Task Orders Awarded by the Air Force Center for Environmental Excellence in Support of the CPA	28-Jul-04	1	1	0
5	04-005	Award of Sector Design-Build Construction Contracts	23-Jul-04	0	-	-
6	04-006	Corporate Governance Programs for Contractors Providing Goods and Services for Iraq Relief and Reconstruction Efforts	21-Jul-04	0	-	-
7	04-007	Oil for Food Cash Controls for the Office of Project Coordination in Erbil, Iraq	26-Jul-04	0	-	-
8	04-008	CPA Control Over Seized and Vested Assets	28-Jul-04	3	3	0
9	04-009	CPA's Comptroller Cash Management Controls Over the Development Fund for Iraq	28-Jul-04	5	5	0
10	04-011	Accountability and Control of Material Assets of the CPA in Baghdad	26-Jul-04	2	0	2
11	04-013	CPA Contracting Processes Leading Up to and Including Contract Award	27-Jul-04	1	0	1

**Table 2: Completed Audits**

# Investigations

## Overview

The Coalition Provisional Authority Inspector General (CPA-IG) has established a robust criminal investigative capability. As of July 23, 2004, nine experienced criminal investigators were on staff—five in Baghdad and four in Washington, D.C. All have graduated from accredited and federally recognized law enforcement academies, and all have been deputized by the United States Marshals Service. The CPA-IG investigative staff is responsible for reviewing and investigating allegations of fraud, waste, and abuse relating to the CPA and the Iraq Relief and Reconstruction Fund. The allegations have been generated from several sources, including the CPA-IG Hotline, walk-in reporting in Baghdad, and referrals from other federal agencies.

CPA-IG investigators have focused on reported incidents relating to spending and managing CPA funds. Special agents in Washington, D.C., closely coordinated with agents in Baghdad to prioritize the reported incidents and determine whether the CPA-IG had jurisdiction. This usually required a preliminary investigation in which they assembled the facts and determined whether to pass cases to another federal agency.

As necessary, the CPA-IG coordinates cases with other law enforcement agencies and, when appropriate, the Department of Justice. If an employee violated CPA standards of conduct, the CPA-IG generated a Management Deficiency Notification, which informed officials of the violation.

The environment in Iraq presents a range of challenges for CPA-IG investigators. First, Iraq is largely a cash-based economy. Second, daily life is dynamic, volatile, and hazardous. Finally, CPA-IG investigators have had to adapt to operating within a diverse community of law enforcement entities, including the Inspector General for the Multi-National Force–Iraq, the U.S. Army Criminal Investigation Command (CID), the Defense Criminal Investigative Service (DCIS), the Federal Bureau of Investigation (FBI), and others.

## CPA-IG Case Summaries

As of June 30, 2004, the CPA-IG had received 69 cases. Forty-two have been closed or referred to other investigative agencies, and 27 cases are still open. These summaries demonstrate the range of CPA-IG cases reported to date:

- A senior advisor of a CPA department manipulated the contract-award system and orchestrated the award of a \$7.2 million security contract without going through the required bid process. The award also contained an advance payment of \$2.3 million. CPA-IG intervention resulted in a CPA general counsel review, which recommended voiding the contract. The \$7.2 million award was revoked, and the



contractor was directed to repay the \$2.3 million advance payment. Also, the senior advisor involved was removed from the position.

- In the course of an ongoing fraud investigation, the CPA-IG uncovered weak contract monitoring. Numerous deficiencies were discovered in a fixed price contract for oil pipeline repair. For example, personnel were not in the field performing work as specified by the contract. As a result of CPA-IG actions, the Program Management Office issued a letter to the contractor deducting \$3,379,505 in improper charges. In a related action, the contractor providing security to the oil pipeline repair crew was also found to have overcharged CPA by \$20,000. The security overcharge was also deducted from the invoice. The investigation is ongoing.
- A complainant alleged that a Department of Defense (DoD) employee in the Program Management Office in Iraq committed attendance fraud. The investigation substantiated the time-card fraud and discovered that the employee also possessed unauthorized automatic weapons. The CPA-IG seized the weapons and wrote a Report of Investigation for Fraud of \$15,000. The employee was removed from the position and returned to the United States. The CPA-IG also asked the Ministry of Interior to review and revise the CPA weapons policy.
- The Iraqi Ministry of Interior appointed a DoD civilian as a coach for an Iraqi amateur sports team. The Ministry advanced the coach \$40,000 in cash to take the team to competitions in other countries, and the coach gave the funds to his military assistant. While at a sporting event, the military assistant gambled and lost a portion of the funds, which were then written off as a legitimate loss. CPA-IG investigators requested supporting documentation and determined that the funds were lost because of unauthorized gambling. The case is still pending final resolution.
- A complainant alleged that Iraqi Airlines was sold at a reduced price to an influential family with ties to the former regime. The investigation revealed that Iraqi Airlines was essentially dissolved, and there was no record of the transaction. The CPA-IG intervened, which resulted in the involvement of the Ministry of Transportation. The Ministry is determined to ensure that funds derived from the transaction are identified and used for Iraqi reconstruction.
- At the request of the CPA General Counsel, the CPA-IG helped determine the validity and resolution of a civil dispute between two security contractors. The dispute centered on contractor identification cards, equipment, and weapons. After intervention by the CPA-IG, the issues and allegations were resolved.
- The Department of Commerce requested the CPA-IG's assistance on a criminal investigation that focused on a foreign firm's request for an export license to deliver questionable materials to another firm with a Baghdad address. CPA-IG investigators gathered the requested information, confirmed the existence of the Baghdad firm, verified the address, and provided contact information in Baghdad. No further assistance was required.

- An Iraqi national who claimed to be a member of the Ministry of Education entered into numerous construction contracts with local Iraqi construction companies to renovate government buildings in Baghdad. The suspect solicited and received money from contractors as payment for providing them with the construction work, promising the contractors that they would be paid by either the U.S. government or the United Arab Emirates. The suspect was not affiliated with any government interest and had no authorization for work or payments by the Ministry of Education or the CPA. A CPA-IG investigation substantiated the case and referred it to an Iraqi Investigative Judge and the Iraq Commission for Public Integrity.
- An ongoing investigation involving the illegal exchange of worthless Iraqi dinars by a foreign national has led to the recovery of \$29,000. The investigation is ongoing, and more funds are expected to be recovered.

The CPA-IG has a number of other cases that, because of their sensitivity, cannot be included in this Report.

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## **Coordination with Other Federal Agencies**

The CPA-IG regularly coordinates with other government agencies conducting investigative work in Iraq. The CPA-IG asked for and received information from the FBI, DCIS, and U.S. Agency for International Development Inspector General (USAID IG) about their investigative activities in Iraq. Because most of this information is sensitive, only the information below can be released.

### ***Federal Bureau of Investigation***

As of June 21, 2004, the FBI reported that it had three open cases pending in Iraq, two of which have opened recently. There are no closed cases.

### ***Defense Criminal Investigative Service Investigations***

The DCIS continues to support the DoD by providing criminal investigative support on major fraud, public corruption, contract fraud, theft of funds, counterfeiting, and terrorism-related cases. The DCIS routinely coordinates with U.S. Military Police and the Iraqi National Police. As of June 17, 2004, the DCIS has three special agents, managed by the DCIS Mid-Atlantic Field Office, which supports its operations in Iraq. The DCIS has five open cases and has referred three cases as of June 17, 2004.

### ***U.S. Agency for International Development IG Investigations***

Since the announcements of Iraq reconstruction contract bids in the second and third quarters of FY 2003, the USAID IG has opened 13 investigative actions directly associated with the program. As of June 17, 2004, eight USAID IG investigators have supported work on these actions. The USAID had one agent in Baghdad working full-time on Iraq cases; three agents in Cairo, Egypt, and three in Washington, D.C., support investigative work in

Iraq. Five of the identified thirteen actions are open and active cases. Three referrals have been made—one to the USAID Mission in Baghdad and two to the Department of Justice.

### ***Department of State***

The Department of State Inspector General (DoS IG) established its Baghdad office on July 1, 2004. It anticipates an investigative workload comparable to other IGs in Iraq. The DoS IG is working on one allegation recently referred from CPA-IG.

# Inspections, Policy, and Oversight

## Overview

In March 2004, the Coalition Provisional Authority Inspector General (CPA-IG) created the Assistant Inspector General for Inspections, Policy, and Oversight (AIG-IPO). The AIG-IPO is responsible for inspections of CPA activities, CPA-IG policy, and oversight of internal operations. It also investigates allegations of fraud, waste, abuse, mismanagement, and reprisal reported through the CPA-IG Fraud, Waste, and Abuse Hotline. Nine people are assigned to the inspections group.

## Inspections

The CPA-IG has two ongoing inspections:

### **Baghdad Iraq Green Zone Housing Placement Procedures**

The objective of this inspection is to determine the authority that allows residents to occupy Green Zone housing, the documentation to support their occupancy, and whether monies were paid or are being paid to permit their continued occupancy. Fieldwork for this effort is ongoing.

### **Treatment of Foreign Workers by Contractors Employed by the U.S. Government**

The objective of this inspection is to assess whether the foreign personnel employed by U.S. contractors and subcontractors are treated fairly, humanely, and consistent with prevailing U.S. standards. Fieldwork for this effort is ongoing.

## Hotline

Contractors, military and government personnel, and the public are actively encouraged to report suspected fraud, waste, abuse, mismanagement, and reprisal to the CPA-IG Hotline by phone, the CPA-IG website, fax, and mail.

In Baghdad, local nationals can walk into an Iraqi Assistance Center to file complaints. Many non-governmental organizations have been helpful in directing Iraqis with complaints to the Iraqi Assistance Centers and to CPA-IG personnel in Baghdad. To facilitate input from Iraqis, the CPA-IG is working to provide access to the Hotline through the local Iraqi phone system, IraqNa.

When a complaint comes into the Hotline, a complaint analysis is performed. If the complaint raises issues that are within the purview of the CPA-IG, it is assigned to the appropriate internal office. If it is not within the purview of the CPA-IG, the complaint is referred to the appropriate agency or dismissed.

During the reporting period, there were 265 contacts from the public and members of the DoD community, resulting in 222 actions (43 contacts were matters inappropriate for the IG Hotline). Table 3 shows how hotline submissions were received; Table 4 shows how submissions were distributed; Table 5 shows submissions by type.

Type	U.S.	Iraq
Walk-in	1	80
Phone	21	0
Internet Web Form	104	0
Mail	3	0
Fax	8	0
Transfers from Other Agencies	5	0
<b>Total</b>	<b>222</b>	

**Table 3: Hotline Submissions**

Organization	Quantity
AIG-IPO	96
AIG-Investigations	41
AIG-Audit	13
AIG-C&PA (FOIA)	2
Referred to Other Agencies	37
Transferred to Other IG Organizations	25
Dismissed	8
<b>Total</b>	<b>222</b>

**Table 4: Submission Distribution**

Type	Quantity
Fraud	44
Waste	20
Abuse	57
Reprisal	6
Criminal	16
FOIA	2
Other	77
<b>Total</b>	<b>222</b>

**Table 5: Submission Types**

Of the 222 actions initiated, 124 are closed and 98 are ongoing. Trend analysis indicates that 43% of the submissions during the reporting period were related to contracting.

### ***Hotline Promotion***

The CPA-IG developed a communications and outreach strategy, which included creating and distributing printed materials in English and Arabic. The CPA-IG also developed a public service message that runs on Armed Forces Network television and radio in Iraq. The message encourages the reporting of fraud, waste, and abuse and provides Hotline contact information.

The CPA-IG sent letters to 20 U.S. government agencies with oversight responsibilities related to activities in Iraq. The letters introduced the Hotline and urged the agencies to post or distribute the included Hotline posters, brochures, and business cards, and to provide the name of a contact person for referrals. The CPA-IG also sent a similar letter to 69 contractors with contracts of \$5 million and above, urging them to post and distribute the materials to their employees and subcontractors in Iraq and the United States.

The CPA-IG has posted Hotline posters and flyers in both Arabic and English in the Baghdad Iraqi Assistance Center. The CPA-IG is placing Hotline posters and flyers in both Arabic and English in other Iraqi Assistance Centers and non-governmental organizations to encourage Iraqi nationals to report fraud, waste, abuse, and mismanagement.

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## **Quality Assurance**

On May 17, 2004, the CPA-IG established the Quality Assurance Division (QAD), which is developing:

- audit and inspection policies that will comply with generally accepted government auditing standards (GAGAS) and President's Council on Integrity and Efficiency (PCIE) Quality Standards for Inspectors General
- Hotline standard operating procedures
- quality assurance policy
- oversight of audit reports
- quality assurance reviews of internal operations

Our approach to developing policy is to adopt guidance from existing organizations to the greatest extent possible.

The CPA-IG is developing the *CPA-IG Audit Manual* and has adopted a tailored quality assurance checklist for audit documentation. The QAD will review audit reports on a sample basis to assess compliance with GAGAS issued by the U.S. Comptroller General and with the *Quality Standards for Federal Offices of Inspectors General*, issued by the PCIE. Internal quality assurance reviews of CPA-IG operations began in early July.



# Coalition Provisional Authority Inspector General Initiatives

## Overview

To enhance its audit and investigative functions, the CPA-IG established several specific, mission-complementary initiatives. The goals of these initiatives are:

- to increase interagency communication
- to promote economic efficiency
- to combat fraud, waste, and abuse of reconstruction funds

In pursuing these initiatives, the CPA-IG has received cooperation and support from other federal agencies tasked with similar missions. This section provides details on the progress that the CPA achieved through these initiatives:

- Corporate Governance
- Insurance and Security
- Iraq Inspector Generals Council (IIGC)
- Iraq Financial Working Group (IFWG)

## Corporate Governance

The purpose of this initiative was to ensure that major Iraq reconstruction contractors possess effective corporate governance programs. To that end, the CPA-IG executed an audit to review the corporate governance programs of five contractors that were awarded substantial Iraq Relief and Reconstruction contracts funded from the \$18.4 billion Emergency Supplemental Appropriation.

Corporate governance plays a crucial role in the deterrence of fraud, waste, and abuse. Contractors that adopt and implement effective corporate governance programs help ensure efficient, effective financial and program management. Further, companies with effective corporate governance programs are more likely to have high compliance rates with applicable laws and regulations.

The CPA-IG identified four significant standards for measuring effective corporate governance programs:

- a clear and unambiguous code of business ethics and conduct
- rigorous compliance with the Sarbanes-Oxley Act
- an extensive government compliance program, including oversight of sub-contractor cost management
- recognition and effective mitigation of the risks of conducting business in Iraq



Initially, the CPA-IG asked all companies with contracts of at least \$5 million to voluntarily provide their codes of business ethics, codes of conduct, and internal compliance systems. The challenge of obtaining and evaluating this extensive data prompted the CPA-IG to select a representative group of major contractors. During May and June 2004, CPA-IG representatives met with senior officials from Fluor-AMEC, Halliburton, Parsons, Perini, and Washington International Group to review their corporate governance programs. CPA-IG representatives also met with DCAA representatives who were responsible for oversight at each contractor facility. Each contractor under review demonstrated a viable corporate governance program by taking actions that would help identify and eliminate liability-creating conduct; each contractor had designed and implemented its corporate governance policies to best ensure compliance.

Corporate governance programs must adapt to changing business environments and demonstrate a code of business ethics, attention to systems of internal control, and a commitment to compliance requirements. Sound corporate governance helps deter and detect wrongful conduct. The U.S. government relies on contractors' corporate governance programs as an important element in the fight against fraud, waste, and abuse.

Corporate governance issues are discussed in further detail in Audit Report No. 04-006, "Corporate Governance Programs for Contractors Providing Goods and Services for Iraq Relief and Reconstruction Efforts," summarized in the Audits section. Future audits and reviews of the CPA-IG will include, as a relevant point of reference, an evaluation of the corporate governance systems of contractors whose activities are under review. The CPA-IG will continue to feature corporate governance as an essential part of its reporting.

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## Insurance and Security

### *Overview*

In Iraq's unsettled security environment, contractor employees face grave risks. Contractors performing services for the U.S. government overseas, particularly in hostile environments, incur legal liability for the injury, lost wages, or deaths of their employees. The U.S. government also incurs significant legal and financial obligations for harm to its contract workers in Iraq. The CPA-IG has launched an Insurance and Security Initiative to examine potential methods for providing workers' compensation insurance and to address the cost of security-related issues for employees working on Iraq reconstruction.

The CPA-IG is actively working to:

- assess the direct and indirect liability of the U.S. government for contractor employees' insurance coverage and claims arising in Iraq
- identify best practices for coverage and claims that promote efficiency and economy in the use of federal funds

## ***Liability for Contract Workers***

Two principal federal statutes address workers' compensation insurance for civilian employees overseas: the Defense Base Act<sup>1</sup> (DBA) and the War Hazards Compensation Act.<sup>2</sup>

- The general purpose of the DBA is to ensure that contractors have a broad form of workers' compensation to cover civilian employees (domestic and foreign) of private companies working overseas for the U.S. government.<sup>3</sup>
- The general purpose of the War Hazards Compensation Act is to shift to the U.S. government the costs of compensation for employees engaged in such work and injured by a war hazard.

Under these statutes, private companies that have received federal contract awards for work in Iraq must acquire DBA insurance coverage before they begin to perform on the contract. They must also maintain coverage during the term of the contract (or while employees are performing work under the contract). Prime contractors are ultimately responsible for liability arising from harm to its workers or its subcontractors' employees.

## ***Disposition of Claims***

Claims for injuries and fatalities among civilian workers in Iraq appear to be underreported. Based on prime contractor and major insurance company estimates of 300,000 civilian employees in Iraq performing work under contract with U.S. funds, U.S. Department of Labor<sup>4</sup> (Labor) officials estimate that 27,000 claims would be processed annually. However, Labor officials indicated that, as of June 30, 2004, only 635 DBA claims had been submitted for civilians working under U.S. contracts in Iraq.<sup>5</sup> Labor officials expressed two concerns:

- The number of total claims is low.
- Claims filed by local nationals and third-country nationals working under U.S. contracts in Iraq are noticeably absent.

## ***Costs of Insurance and Claims***

The U.S. government incurs both direct and indirect costs for insurance in the reconstruction of Iraq. When smaller companies cannot secure or afford DBA insurance, the contracting process becomes less competitive. This drives up the *indirect costs* of reconstruction. Initial results of a CPA-IG survey conducted as part of the initiative suggest that a small firm's low volume of coverage and less established track record may translate into higher costs and present acquisition barriers that deter many from bidding on Iraq reconstruction projects. During the survey, one prospective contractor summed up a common concern: including DBA premiums into overhead costs in a proposal would keep the contractor from being competitive. Also, the complexity of determining the type and extent of coverage, and managing the cost, can be prohibitive for a small firm.

The U.S. government also incurs these *direct insurance and claims costs*:

- allowable DBA premiums in contract costs
- claims that have been paid for injuries and deaths covered by the DBA or War Risk Hazard Act<sup>6</sup>

Generally, the CPA-IG found that the hostile environment in Iraq has resulted in a wide range of elevated DBA insurance rates. According to prime contractors in the survey, DBA insurance premiums ranged from \$5.25 to a high of \$21.50 per \$100 of payroll. DCAA data shows that before the war, two major companies in Iraq had rates of \$1.44 and \$3.00 per \$100 of payroll.<sup>7</sup>

This Insurance and Security Initiative will continue to focus on quantifying the anticipated direct costs of insurance and claims and will seek to develop measures to ensure that U.S. government funds are used more economically and efficiently.

### ***Security Initiative***

The CPA-IG began to gather information on the costs and challenges of providing security to contractors working in Iraq. Because of the wide scope and complexity of this initiative, the CPA-IG had planned to address this issue separately. The Government Accountability Office (GAO), however, has begun a comprehensive review of the use of private security contractors to support the Iraq rebuilding effort. The CPA-IG will work closely with the GAO and share information on this important topic.

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## **Iraq Inspectors General Council**

### ***Overview***

The area of statutory responsibility of the CPA-IG includes oversight of the Iraq Relief and Reconstruction Fund, which is being executed by several other federal agencies. As a result, the CPA-IG formed a new organization on March 15, 2004, the Iraq Inspectors General Council (IIGC), which seeks to coordinate the oversight of Iraq reconstruction programs. The IIGC provides a forum for IG collaboration on Iraq reconstruction audits, inspections, and investigations. The IIGC comprises inspectors general and staff from other federal agencies involved in Iraq relief and reconstruction.

The objectives of the IIGC are to:

- recommend policies to promote the efficient administration of programs and operations
- recommend policies to prevent and detect fraud, waste, and abuse
- manage and coordinate relationships among organizations represented by IIGC members

## ***Authority***

- Section 4(a)(4) of the Inspector General Act of 1978 (5 U.S.C. App.)
- Section 3001(4)(A) of the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004, P.L. 108-106, 117 STAT. 1209 (November 6, 2003)

## ***Members***

The IIGC includes these members:

- Inspector General, Coalition Provisional Authority (Chairperson)
- Inspector General, Department of Defense (Co-Vice Chairperson)
- Inspector General, Department of State (Co-Vice Chairperson)
- Inspector General, Department of the Army
- Inspector General, U.S. Agency for International Development (USAID)
- Inspector General, Department of the Treasury
- Inspector General, Department of Commerce
- Inspector General, Health and Human Services (HHS)
- Defense Contract Audit Agency (DCAA)
- Army Audit Agency (AAA)
- Government Accountability Office (GAO), Observer Member
- International Advisory and Monitoring Board (IAMB), Observer Member

## ***Council Member Updates***

### **Defense Contract Audit Agency (DCAA)**

As of June 30, 2004, the DCAA had issued 376 audit reports, had 425 audits ongoing, and had 144 planned audits related to Iraq. Iraq-related audit work of the DCAA primarily consisted of price proposal audits, incurred cost audits, internal control audits, pre-award accounting surveys, floor checks, and others. DCAA audit topics include dining facility costs, Logistics Civil Augmentation Program (LOGCAP) Task Order #44, and contract audits. Table 6 summarizes DCAA's Iraq-related audits.

Description of Audit Area	Closed	Open	Planned
Price Proposals <sup>a</sup>	75	26	4
Agreed-on Procedures Price Proposal	94	7	3
Other Agreed-on Procedures <sup>b</sup>	79	183	52
Incurred Cost	0	19	9
Floor Checks	38	33	20
Internal Controls <sup>c</sup>	27	66	30
Pre-award Accounting Survey	23	10	1
Purchase Existence and Consumption	14	15	10
Other <sup>d</sup>	26	66	15
<b>Total</b>	<b>376</b>	<b>425</b>	<b>144</b>
Notes			
<sup>a</sup> Full Proposal, Partial Proposal			
<sup>b</sup> Interim Direct Cost Testing			
<sup>c</sup> Purchasing, Billing, Labor, etc.			
<sup>d</sup> Terminations, Claims, CAS, Contract Audit Closings, DPs, Investigative Support, etc.			

**Table 6: DCAA Audits Related to Iraq as of June 30, 2004**

### **U.S. Agency for International Development Inspector General**

The U.S. Agency for International Development Inspector General (USAID IG) has issued 15 performance audit reports on Iraq and currently has two ongoing audits. The USAID IG has also issued 38 financial audit reports on the contracts awarded by the USAID. An additional nine audits are expected to be issued in the near future. Under a program strategy and audit scope developed by the USAID IG, DCAA conducted these audits under a reimbursable agreement with the USAID IG.

Since April 1, 2004, the USAID IG has issued four performance audit reports and six financial audit reports. Of particular note, the USAID IG reported that 64 of the 72 infrastructure task order projects undertaken by Bechtel National, Inc., had been completed or would be completed on schedule. The 64 projects were valued at \$595 million. The remaining eight projects, valued at \$91 million, were delayed in part because of coordination with other implementing entities or security problems at the work site.

### **Department of Defense Inspector General**

The Department of Defense Inspector General (DoD IG) currently has issued one audit report on Iraq reconstruction and has one ongoing audit on a contract awarded by the U.S. Army Corps of Engineers. The DoD IG is planning two audits to focus on \$42 billion of the November 2003 supplemental appropriations, which will address operations and maintenance funding, and obligations and expenditures.

On June 15, 2004, Joseph Schmitz, the DoD IG, visited Iraq. During his visit, Mr. Schmitz met with CPA and CPA-IG representatives and discussed several topics, including the UN's Oil for Food panel and current and planned audits. He also had a very effective visit with the newly appointed Iraqi IGs.

### **Government Accountability Office**

GAO has completed 16 Iraq-related audits and currently has 10 ongoing audits, as of June 30, 2004. Currently, the GAO is working on multiple issues concerning Iraq relief and reconstruction. In June 2004, the GAO released reports on contract award procedures and management challenges in rebuilding Iraq, and resource, security, governance, essential services, and oversight issues.

### **Department of State Inspector General**

The Department of State currently has seven planned audits and two audits in process:

- an audit on controls of funds in Iraq and Afghanistan
- a contract/procurement oversight review of police training in Jordan

### **United States Army Audit Agency**

As of June 30, 2004, Army Audit Agency had two ongoing Iraq-related audits on the LOGCAP and Army accountability over seized and vested assets. Army Audit Agency also plans to conduct an audit on program management in support of Iraq reconstruction.

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## **Iraq Financial Working Group**

### ***Overview***

In March 2003, the CPA-IG identified the need for better communication and coordination among the various entities within the CPA involved in managing and executing Iraq reconstruction funds. To address this issue, the CPA-IG recommended the formation of the Iraq Financial Working Group (IFWG) and assisted in its establishment. The IFWG, which includes representatives of the financial management, acquisition, and inspector general communities involved in Iraq reconstruction, meets approximately every two weeks. This CPA-IG initiative provided a coordinated effort among responsible authorities to promote economy, efficiency, and effectiveness in the administration of CPA programs and operations.

### ***IFWG members***

- CPA Chief Financial Officer
- CPA Inspector General
- CPA Comptroller
- CPA Program Management Office Comptroller
- USAID-Forward Comptroller
- CPA Head of the Contracting Activity

- CPA Ministry of Finance Budget Officer
- Department of State Representative
- Iraq Ministry of Finance Representative
- CPA Office of Logistics Representative

### ***Benefits***

According to the CPA Chief Financial Officer (CFO), “the IFWG promoted information sharing, inter-agency coordination, and effectiveness among the many organizations involved in the reconstruction of Iraq.” In the high-intensity environment of Iraq, many agencies involved in the financial arena held a tight focus on their own operations. Through the IFWG, the CPA CFO, the CPA Head of the Contracting Activity, and the CPA-IG served as a catalyst for achieving a broader perspective on financial issues affecting the members’ interests.

The IFWG also provided a forum to help new arrivals quickly understand the financial working environment in Baghdad. This was an essential step in providing continuity for those temporarily assigned to Iraq on a limited basis. On average, Baghdad assignments ranged from three to six months.

Through the IFWG, the CPA-IG raised the level of focus and visibility on the need for efficiency, effectiveness, internal controls, and transparency in the execution of funds. The CPA-IG also encouraged participants to maintain open lines of communication and to report fraud, waste, and abuse.

As the transition to Iraqi sovereignty neared, IFWG participants reviewed financial status, resolved contracting issues, and coordinated on audits. They also raised numerous transition-related issues, such as the transfer of credit instruments from the CPA to Iraq, fourth-quarter funding projections and requirements, and contracting oversight after transition.

Coordination among IFWG members helped the CPA CFO generate a surplus in operating funds at the point of transition instead of the shortfall that had been projected a few months earlier.

# Coalition Provisional Authority Activities

## Overview

The CPA was established to provide for the temporary governance of a free Iraq. On May 9, 2003, the President of the United States appointed Ambassador L. Paul Bremer III to serve as the Presidential Envoy to Iraq; on May 13, 2003, the Secretary of Defense designated Ambassador Bremer as the head of the CPA. The CPA transferred civil authority to the Iraqi Interim Government (IIG) on June 28, 2004.

Public Law 108-106 provides for a summary of the activities of the CPA. This chapter outlines those activities as:

- Mission/Goals
- Scope of the CPA Mission
- CPA Activities
- Oversight of Iraqi Government Activities
- CPA Transition

## Mission/Goals

The CPA's mission was to work with the Iraqi people to establish the conditions for a free, sovereign, and democratically elected representative government in Iraq. It successfully worked to establish the basis for a unified, stable, democratic Iraq that:

- maintains an effective representative government, ultimately sustained by democratic elections
- protects freedoms for all Iraqis
- provides for a growing market economy
- defends itself without threatening its neighbors or international security

## Scope of the CPA Mission

While serving as the temporary government, the CPA conducted a wide range of activities to oversee Iraq's reconstruction and rehabilitation in these areas:

- Security and Law Enforcement
- Justice, Public Safety, Infrastructure, and Civil Society
- Electricity
- Oil Infrastructure
- Water Resources and Sanitation
- Transportation and Telecommunications



- Roads, Bridges, and Construction
- Health Care
- Private Sector Development
- Education, Refugees, Human Rights, and Governance

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## CPA Activities

The CPA focused on providing Iraqis with essential services, improved security, a reconstituted governance system, and a renewed economy. Its key intermediate objectives were:

- to reconstitute the electrical power infrastructure
- to reconstruct the telecommunications system
- to develop a Transitional Administrative Law
- to build financial market structures
- to improve information dissemination

A Department of Defense (DoD) briefing on July 6, 2004, outlined CPA accomplishments and cited several major successes achieved by the CPA, including:

- The CPA transferred civil authority to the Iraqi Interim Government (IIG) on June 28, 2004, two days ahead of schedule.
- Saddam Hussein appeared in an Iraqi court to hear preliminary charges against him.
- Estimated crude-oil export revenue is projected to exceed over \$8 billion for 2004.
- The total number of telephone subscribers in Iraq is now over 1,252,000—including 461,000 cell phone subscribers—50.3% above pre-war levels.
- A recent poll shows a high level of support (68%) for the Interim Iraqi Government leadership.
- 240 Iraqi hospitals and more than 1,200 preventive health clinics are operating.

The complete DoD briefing on the CPA Section 2207 progress report (July 2, 2004) has been included in Appendix K.

### *Further Details on CPA Activity*

Public Law 108-106, Section 2207, mandated that the CPA provide Congress with a quarterly report of its relief and reconstruction activities. The CPA issued reports on January 5, 2004; April 5, 2004; and July 2, 2004. Before P.L. 108-106, the CPA issued three reconstruction progress reports under P.L. 108-11, Section 1506, in June, July, and October 2003. These reports are available online at <http://www.whitehouse.gov/omb/legislative/index.html>.

Also, the CPA published “An Historic Review of CPA Accomplishments, June 2004,” which is available on the CPA website at <http://www.cpa-iraq.org>.

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## Oversight of Iraq Government Activities

### *Overview*

One of the CPA’s missions was to help the Iraq government combat corruption and nurture principled governance. The CPA created three anti-corruption pillars to meet Iraq’s need for an honest, transparent, and accountable government:

- *The Commission on Public Integrity (CPI)* is the criminal investigative arm of government, responsible for enforcement, oversight, and anti-corruption education. The CPI was created by CPA Order No. 55, January 27, 2004.
- *The Inspector General System (IG System)* provides each government minister with an independent and objective professional staff to fight fraud, waste, and abuse of power. These independent Offices of Inspectors General conduct investigations, audits, evaluations, and other reviews by using generally accepted professional standards. The IG System was created by CPA Order No. 57, February 5, 2004.
- *The Board of Supreme Audit (BSA)* is a 1,200-person auditing force responsible for external auditing, quality control, and oversight of the internal auditing processes. The BSA oversees all government audit functions. The BSA was created by CPA Order No. 77, April 24, 2004.

### *The Iraqi Inspector General System*

The CPA-IG played a lead role in starting up the Iraqi IG System. The system will provide the Iraqi government with a corps of trained and certified staff dedicated to improving ministry performance and eliminating fraud, waste, and abuse. There currently are 29 Inspectors General, with staffs ranging from a handful of professionals in the small ministries to forces of hundreds in larger ministries, such as Interior and Health.

Each Office of Inspector General has three independent, objective fact-finding arms: audits, inspections, and investigations. The IG system is in its infancy in Iraq, but in late June 2004, the CPA-IG was able to help secure more resources for its operations.

### *Iraqi IG Future Initiatives*

The CPA-IG will continue to support the growth of the IG System by:

- helping coordinate the distribution of the IG’s \$11 million budget to 26 Iraqi ministry Inspectors General throughout the Iraqi government
- coordinating training for IG staff members through the remainder of 2004

- helping initiate a government-wide program in ethics, culminating with the training of all state employees in a code of conduct
- supporting coordination for all three anti-corruption pillars
- supporting a training academy to develop expertise in representative governance and methods of combating fraud, waste, and abuse

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## CPA Transition

### *Transition Origins*

In its March 30, 2004, Report to Congress, the CPA-IG identified two potential risk areas: the transition of authority from the CPA to the IIG and the departmental transition of authority from the DoD-funded CPA to the Department of State (DoS).

On March 19, 2004<sup>8</sup>, the Interagency Transition Planning Team (ITPT) was established to accomplish these goals:

- Manage the transfer of authorities from the CPA to the Department of State, under Chief of Mission (COM) authority, for the management of the reconstruction and stabilization of Iraq.
- Develop comprehensive and detailed plans to support the transfer of sovereignty from the CPA to a new Iraqi government.

Located in Washington, D.C., and Baghdad, the ITPT created an operations plan<sup>9</sup> involving DoD, DoS, CPA (forward and rear), the Department of Justice, and other agencies that needed a presence in Iraq. The ITPT aligned its planning milestones with a National Security Council planning matrix and helped to resolve issues among departments on issues pertaining to the CPA's transition in Iraq.

On June, 28, 2004, after a coordinated U.S. interagency transition process that began in January 2004, the CPA transferred authority to the IIG. Also, the CPA transferred all but a few of its U.S. government-related responsibilities to the DoS. Coalition military forces were re-designated as the Multi-National Force-Iraq (MNFI).

The State Department's Near East Asia-Iraq element (NEA-I) and the U.S. Mission, Iraq constitute the successor entity to the CPA, according to Presidential directive and Section 2008 of P.L. 108-106. DoS maintains the funds for establishing the U.S. Embassy in Baghdad, including the balance of unobligated FY 2004 appropriations for CPA operating expenses and the 1% Iraq Relief and Reconstruction Fund (IRRF) transfer.<sup>10</sup> The ITPT planning process supported a close mutual partnership between the new U.S. Ambassador to Iraq and the Commander, Multi-National Force-I (MNFI), who inherited the duties and responsibilities of the coalition's military forces.

## ***U.S. Government Iraq Transition Planning***

In early March 2004, the DoD elements of the ITPT established these planning divisions:<sup>11</sup>

Phase I: Establishing U.S. Mission Advance Team, March 19–June 1, 2004

Phase II: Transition to U.S. Mission, June 1–June 28, 2004

Phase III: Transfer of Sovereignty to Interim Iraqi Government (IIG),  
June 28–September 30, 2004

Phase IV: IIG Drafts New Constitution, October 1, 2004–January 31, 2005

Phase V: Nationwide Elections and a Permanent Iraqi Constitution,  
February 1, 2005–TBD

### **Phase I—Establishing U.S. Mission Advance Team**

Phase I began March 19, 2004, when the forward planning cell of the ITPT arrived in Baghdad. The purpose of this phase was for the ITPT-Baghdad and the CPA, with support from the ITPT-Washington and CENTCOM/CJTF-7, to plan and coordinate the opening of the U.S. Mission. Also, the MNFI and ITPT teams prepared for other transition missions—including personnel, logistics, communications, facilities, and real property transfer—and finalized plans for other phases.

During Phase I, MNFI achieved full operational capability on May 15, 2004, and later assumed command of the Office of Security Transition (OST), which had responsibility for training the Iraqi security and police forces.

By June 1, 2004, the DoS established the U.S. Mission Advance Team in Iraq. During this period, the DoD planned for providing security and other support to U.S. Mission, Iraq activities, direct administrative and logistical support to the U.S. Embassy in the Green Zone, and general support to non-DoD U.S. government agencies operating in the Green Zone and at other sites in Iraq.

### **Phase II—Transition to U.S. Mission**

Phase II began when the U.S. Mission Advance Team arrived on June 1, 2004, and ended on June 28, 2004, when the CPA was dissolved and the U.S. Mission, Iraq was established. The purpose of this phase was to prepare for and establish the U.S. Mission, Iraq when the IIG assumed authority from CPA.

During Phase II, the U.S. Mission Advance Team assumed appropriate embassy functions from the CPA. The Iraq Reconstruction Management Office (IRMO) was established by Presidential directive to assist the U.S. Ambassador in setting policy for Iraq reconstruction and provides expertise and operational assistance to Iraqi ministries in the reconstruction process.

The U.S. Army assumed responsibility for the new Project and Contracting Office (PCO), which is the follow-on to CPA's Program Management Office and will provide acquisition and program management support to the U.S. Mission to execute IRRF contracts. On June 28, 2004, it became an Army temporary organization under the management and oversight of the Deputy Chief of Mission.

DoD established the Joint Area Support Group Central to provide direct administrative and logistical support to the U.S. Mission and general support to other U.S. government tenants in the Green Zone, as well as the DoS's new Regional Teams. The ASG achieved full operational capability on June 28, 2004. CPA Governorate Teams also completed transition to the new DoS Regional Teams in Mosul, Kirkuk, Hillah, and Basrah during June. The Regional Teams are one of the critical elements of U.S. continued presence in Iraq: they offer direct contact with the Iraqi people.

### **Phase III—Transfer of Sovereignty to Interim Iraqi Government**

During this phase, which began on June 28, 2004, the U.S. Mission has assumed full responsibility for U.S. interests in Iraq and for relations with the government of Iraq. The IRMO will close out all FY 2004 residual CPA financial transactions. By September 30, 2004, CPA support contracts required by the DoS have transferred to the U.S. Mission. The DoS established procedures to use purchase order instruments to leverage current DoD provisioning contracts. The DoD will provide acquisition and program management support to the U.S. Mission for execution of contracts funded under the IRRF. The Commander, MNFI will continue to provide security. Phase III ends at the conclusion of the fiscal year on September 30, 2004.

### **Phase IV—IIG Drafts New Constitution/Assembly Elections**

Phase IV will begin on October 1, 2004, and is expected to end when the Transitional National Assembly is elected on or about January 31, 2005. The purpose is to finalize organizational changes in MNFI and the U.S. Mission and to assist with national elections. The IIG's primary responsibility is to administer Iraq's affairs, including the welfare and security of the Iraqi people, and to draft an Iraqi constitution. MNFI will continue to establish and maintain a secure environment, while Iraqi security forces continue to become more capable.

### **Phase V—Nationwide Elections and a Permanent Iraqi Constitution**

Phase V will begin on or about February 1, 2005. The purpose of this phase is to monitor and reduce the presence of MNFI and other U.S. support elements as the Iraqi Transitional Government (ITG) seeks ratification of a permanent Iraqi Constitution by October 2005. Then, nationwide elections will be held under this Constitution to establish a permanent Iraqi government by the end of 2005. Iraqi security forces will be mission-capable and will assume responsibility for internal and external security. This phase will end with the normalization of Iraqi local and national governance and the establishment of a stable environment in which the U.S. and other missions can operate under normal conditions.

## ***Government of Iraq***

As defined in the Transitional Administrative Law, the Government of Iraq will transition to a permanent, constitutional government in two phases<sup>12</sup>:

- The first phase began with the formation of a fully sovereign Iraqi Interim Government that took power on June 28, 2004. This government was constituted through a process of extensive deliberations and consultations conducted by the Iraqi Governing Council, the CPA, and the UN.
- The second phase begins after the formation of the ITG, which will take place after elections for the National Assembly on December 31, 2004, or no later than January 31, 2005. This second phase will end after formation of an Iraqi government and the adoption of a permanent Constitution.

On June 1, 2004, the Iraqi Governing Council was dissolved, and the IIG was formed. On June 28, 2004, the CPA was dissolved, and the IIG was vested with governance authority. Figure 2 illustrates the timeline for Iraqi governance transition.

### **Governance - Transition**



**Figure 2: Iraqi Governance Transition<sup>13</sup>**

## ***U.S. Government Internal Transition***

On March 19, 2004, the ITPT began a four-month series of planning sessions, exercises, and joint DoS-DoD seminars and meetings. The DoD effort centered around the OpPlan<sup>14</sup>. The DoS effort centered around the National Security Decision Directive (NSDD) 38 process, which mandates procedures by which non-DoS agencies propose to operate in

foreign countries under Chief of Mission (DoS) authority. Both DoS and DoD participated in both processes to plan, coordinate, and execute Iraqi transition.

On a daily basis, DoS and DoD negotiated which U.S. government-related CPA functions would remain under DoD funding control and which would migrate to DoS after the June 28, 2004, transfer of sovereignty.

All but three entities were placed under the authority of the DoS and the Ambassador to Iraq:

- Coalition military forces became the Multi-National Force-Iraq (MNFI).
- The former CPA Program Management Office (PMO) became the Project Contracting Office (PCO).
- The CPA-IG, a congressionally-created, independent IG, continued as a DoD element under a Memorandum of Agreement.

### ***CPA Dissolution***

On November 15, 2003, the CPA and the Iraqi Governing Council<sup>15</sup> agreed that civil authority would be transferred to a new Iraqi government by June 30, 2004. On June 28, 2004, CPA transferred sovereignty to the Iraqi Interim Government.

## Sources and Uses of Funding for Iraq Relief and Reconstruction

The cost of Iraq relief and reconstruction in the medium term was estimated by the UN and World Bank at \$56 billion and by the U.S. Congressional Budget Office at \$50–100 billion. These relief and reconstruction requirements are formidable. As of the end of June 2004, approximately \$49.6 billion had been provided for Iraq relief and reconstruction from U.S. appropriated funds, Iraqi funds, and funds contributed by donor nations. The sources of funds were:

- *U.S. appropriated funds*: \$24.0 billion, used primarily for Iraq reconstruction
- *Iraqi funds*: \$23.4 billion, used for the relief of the Iraqi people, reconstruction projects, and daily operations of the Iraqi ministries
- *Donor funds*: \$2.2 billion in contributions and firm commitments by donor countries and international organizations (\$849 million in humanitarian aid and \$1.4 billion of the \$13.5 billion pledged at the Madrid International Donors Conference for Iraq Reconstruction)

Of the \$49.6 billion, \$33.3 billion has been obligated, and \$21.4 billion has been expended. This leaves an unobligated amount of \$16.3 billion<sup>16</sup> (\$13.4 billion U.S., \$2.8 billion Iraqi funds, and \$.1 billion in donor aid). Figure 3 provides an overview of the sources of funds.

### General Overview Sources of Funds (in millions) as of June 30, 2004

U.S. Appropriated Funds	Iraqi Funds	Donor Funds
<b>Public Law 108-11</b> (April 2003) <ul style="list-style-type: none"> <li>- IRRF (\$2,475)</li> <li>- NRRRF (\$802)</li> <li>- CPA OPS (\$698)</li> <li>- New Iraqi Army (\$52)</li> </ul> <b>Non-IRRF</b> <ul style="list-style-type: none"> <li>- USAID (\$413)*</li> <li>- DoS (\$60)*</li> </ul>	<b>Vested Funds</b> <ul style="list-style-type: none"> <li>- From Frozen Funds (\$1,724)</li> </ul>	<b>Donor</b> <ul style="list-style-type: none"> <li>- Pledged loans &amp; grants from International Donors to World Bank Trust Fund (U.N.) (\$13,535) (Current Bilateral Aid and IRFFI deposits \$1,230; 2004 IRFFI commitments \$128)</li> <li>- Humanitarian Aid (\$849)</li> </ul>
<b>Public Law 108-106</b> (Nov 2003) <ul style="list-style-type: none"> <li>- IRRF (\$18,439)</li> <li>- CPA OPS (\$983)</li> <li>- CERP ** (\$140)</li> </ul>	<b>Seized Funds</b> <ul style="list-style-type: none"> <li>- Confiscated Cash &amp; Property (\$926)</li> </ul>	
	<b>DFI (\$20,706)</b> (Development Fund for Iraq) <ul style="list-style-type: none"> <li>- Oil Proceeds</li> <li>- Oil For Food (OFF)</li> <li>- Repatriated Funds</li> </ul>	

See Glossary for acronyms  
 \* in addition to IRRF funding  
 \*\* Commanders Emergency Response Program

Figure 3: General Overview Sources of Funds as of June 30, 2004



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## U.S. Appropriated Funds

The U.S. has appropriated \$24.0 billion toward the relief and reconstruction of Iraq. As of June 30, 2004, \$10.7 billion (45%) had been obligated, and \$3.7 billion (16%) had been expended. The \$3.7 billion of expenditures include spending on infrastructure rehabilitation, security and social services, CPA operations, governance initiatives, relief, and administration.

Congress appropriated funds for the reconstruction of Iraq in two supplemental appropriations acts:

- Public Law 108-11, the Emergency Wartime Supplemental Appropriations Act (April 16, 2003)
- Public Law 108-106, the Emergency Supplemental Appropriations Act for the Defense and Reconstruction of Iraq and Afghanistan (November 6, 2003)

### ***Public Law 108-11***

Public Law 108-11 created the Natural Resources Risk Remediation Fund (NRRRF), the Iraq Relief and Reconstruction Fund (IRRF 1), and the Iraq Freedom Fund (IFF).

The Act established the NRRRF “for expenses necessary, in and around Iraq, to address emergency fire fighting, repair of damage to oil facilities and related infrastructure, and preserve a distribution capability.” As of June 30, 2004, \$802 million had been apportioned, \$800.6 million had been committed and obligated, and \$678 million had been expended (See Table 7).

Public Law 108-11 established the Iraq Relief and Reconstruction Fund (IRRF 1) “for necessary expenses for humanitarian assistance in and around Iraq and to carry out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq.” As of June 30, 2004, the Office of Management and Budget (OMB) had apportioned 98% of the \$2.475 billion IRRF 1 funds among the U.S. Agency for International Development (USAID), Department of Defense (DoD), Department of State (DoS), and the Department of the Treasury (Treasury). Of the \$2.475 billion in IRRF 1, \$2.4 billion (98%) had been obligated and \$1.5 billion (62%) had been expended.

- Table 7 shows the status of the supplemental appropriation funds related to Iraq relief and reconstruction (Public Law 108-11).
- Table 8 shows the Public Law 108-11 funding status by program and by USAID strategic objectives.

Public Law 108-11 also established the Iraq Freedom Fund (IFF) “for additional expenses for ongoing military operations in Iraq... for stability operations...and for other costs.” These funds were used to provide CPA operating expenses and \$300 million was transferred to the NRRRF. Other sections of the Act funded additional activities by DoS (\$60 million) and USAID (\$413 million). Funds from P.L. 108-11 are available for obligation through September 30, 2004.

Source	Agency	Apportioned	Obligated	Expended
<b>NRRRF</b>	DoD	\$802.0	\$800.6	\$677.5
<b>IRRF</b>	USAID	1,830.3 <sup>a</sup>	1,812.1	1,003.5
	DoD IRRF1	466.0	464.0	454.7
	DoS	125.4	120.2	60.5
	Treasury	6.0	6.0	2.8
	USTDA	5.0	0.7	0.2
	<i>Sub-total</i>	<i>2,432.7<sup>b</sup></i>	<i>2,403.0</i>	<i>1,521.7</i>
<b>Non-IRRF P.L. 108-11</b>	DoS	60.0	50.0	47.5
	USAID	412.9	410.0	365.5
	<i>Sub-total</i>	<i>472.9</i>	<i>460.0</i>	<i>413.0</i>
<b>IFF</b>	CPA-OPS	698.0	606.0	457.6
	New Iraqi Army	51.2	51.2	39.2
	<i>Sub-total</i>	<i>749.2</i>	<i>657.2</i>	<i>496.8</i>
<b>Total</b>		<b>\$4,456.8</b>	<b>\$4,320.8</b>	<b>\$3,109.0</b>
<sup>a</sup> Includes \$10 million that will be returned to OMB for future apportionment.				
<sup>b</sup> Of the \$2,475 million appropriated, all but \$42.3 million has been apportioned.				

**Table 7: Status of Supplemental Appropriation (P.L. 108-11) (in millions)**

On the following page, Table 8 presents the status of Iraqi reconstruction programs by federal agencies.

Agency	Program Name	Apportioned	Obligated	Expended
<b>NRRRF Funds</b>				
<b>DoD</b>	Restore Iraq Oil (RIO)	\$802.0	\$800.6	\$677.5
<b>Total NRRRF Funds</b>		<b>\$802.0</b>	<b>\$800.6</b>	<b>\$677.5</b>
<b>IRRF 1 Funds</b>				
<b>USAID</b>	Restore Critical Infrastructure	\$1,124.4	\$1,124.4	\$504.8
	Improve Efficiency & Accountability of Gov't	174.7	174.7	130.5
	Food Aid: Office of Food for Peace	160.0	160.0	122.8
	Support Education Health and Social Services	118.5	118.5	72.9
	Relief: Office of Foreign Disaster Assistance	73.7	67.0	46.6
	Office of Transition Initiatives	70.1	69.9	50.0
	Expand Economic Opportunity	65.9	65.9	57.0
	Prog. Support & Development of Gulf Region	18.0	18.0	14.7
	Administrative Expenses	15.0	13.7	4.2
	Transfers/Adjustments <sup>a</sup>	10.0	00.0	0.0
	<i>Sub-total</i>	<i>1830.3</i>	<i>1812.1</i>	<i>1003.5</i>
<b>DoD</b>	Restore Iraq Electricity (RIE)	300.0	298.0	297.5
	Restore Iraq Oil (RIO)	166.0	166.0	157.2
	<i>Sub-total</i>	<i>466.0</i>	<i>464.0</i>	<i>454.7</i>
<b>DoS</b>	Police/Prison Programs	61.5	56.9	20.5
	Relief Efforts	27.0	26.4	9.1
	Law Enforcement	24.6	24.6	20.4
	Humanitarian Demining	12.3	12.3	10.5
	<i>Sub-total</i>	<i>125.4</i>	<i>120.2</i>	<i>60.5</i>
<b>Treasury</b>	Technical Assistance	6.0	6.0	2.8
	<i>Sub-total</i>	<i>6.0</i>	<i>6.0</i>	<i>2.8</i>
<b>U.S. Trade and Dev. Agency</b>	Technical Assistance, Training	5.0	0.7	0.2
	<i>Sub-total</i>	<i>5.0</i>	<i>0.7</i>	<i>0.2</i>
<b>Total IRRF 1 Funds</b>		<b>\$2,432.7</b>	<b>\$2,403.0</b>	<b>\$1521.7</b>
<b>Non-IRRF 1 Funds</b>				
<b>USAID</b>	Food Aid: Office of Food for Peace	\$138.2	\$136.4	\$113.8
	USDA <sup>b</sup>	106.8	106.8	106.8
	Restore Critical Infrastructure	51.6	51.6	51.5
	Support Education Health and Social Services	34.0	34.0	29.1
	Relief: Office of Foreign Disaster Assistance	33.4	33.4	21.6
	Operating Expenses	24.5	23.5	19.4
	Prog. Support & Development of Gulf Region	10.5	10.4	10.4
	Improve Efficiency & Accountability of Gov't	8.9	8.9	8.9
	Expand Economic Opportunity	5.0	5.0	4.0
	<i>Sub-total</i>	<i>412.9</i>	<i>410.0</i>	<i>365.5</i>
<b>DoS</b>	Coalition Support	50.0	50.0	47.5
	War Crimes Tribunals	10.0	0.0	0.0
	<i>Sub-total</i>	<i>60.0</i>	<i>50.0</i>	<i>47.5</i>
<b>Total Non-IRRF 1 Funds</b>		<b>\$472.9</b>	<b>\$460.0</b>	<b>\$413.0</b>

<sup>a</sup> Includes \$10 million that will be returned to OMB for future apportionment.

<sup>b</sup> Funds appropriated to U.S. Department of Agriculture, then transferred to USAID.

**Table 8: Status by Program and by USAID Strategic Objectives (P.L. 108-11) (in millions)**

The Act also funded the daily operations of the CPA until P.L. 108-106 was passed in November 2003. A more detailed presentation of CPA operating expenses is provided in the section on CPA Operating Funds.

The CPA allocated most of the funds (54%) in P.L. 108-11 for the rehabilitation of Iraqi infrastructure—primarily oil production and electricity generation. Other major uses included relief, governance initiatives, and health and social services.

### ***Public Law 108-106***

P.L. 108-106 appropriated \$18.4 billion for relief and reconstruction activities in Iraq and established the Iraq Relief and Reconstruction Fund (IRRF 2). These funds are available for obligation until September 30, 2006.

In addition to creating IRRF 2, the Act authorized \$983 million for the operations of the CPA, including \$75 million for the CPA-IG and \$50 million to support CPA reporting requirements. The Act also authorized the use of \$180 million of Defense Operations and Maintenance (O&M) funds for the Commanders Emergency Response Programs (CERP) in Iraq and Afghanistan. DoD allocated \$140 million of the \$180 million for CERP activities in Iraq. As of June 30, 2004, \$31.6 million (23%) of the \$140 million allocated for CERP in Iraq had been obligated, and \$27.2 million (19%) had been expended. Table 9 is an updated status overview of P.L. 108-106 funds.

Source	Appropriated	Apportioned	Committed	Obligated	Expended
IRRF 2	\$18,439.0	\$11,055.0	\$9,514.0	\$5,639.0	\$400.0
CPA-OPS/IG	983.0	1041.3	781.7	729.5	226.1
<b>Total</b>	<b>\$19,422.0</b>	<b>\$12,096.3</b>	<b>\$10,295.7</b>	<b>\$6,368.5</b>	<b>\$626.1</b>

**Table 9: Status of Supplemental Iraq Reconstruction Funding (P.L. 108-106) as of June 30, 2004 (in millions)**

### **Iraq Relief and Reconstruction Fund 2**

Based on priorities established by the CPA Administrator, the \$18.4 billion IRRF 2 appropriation was divided among 11 sectors as shown in Table 10. Two-thirds of the funds have been apportioned to construction projects and one-third toward non-construction and democracy building. As of June 30, 2004, \$11.0 billion (60%) had been apportioned, \$9.5 billion (52%) had been committed, \$5.6 billion (31%) had been obligated, and \$400 million had been expended (2%).

OMB's \$11 billion apportionment of IRRF 2 funds by agency was: DoD, \$7.8 billion (70.2%); USAID, \$2.2 billion (20.6%); DoS, \$980 million (8.9%); and U.S. Treasury, \$32 million (0.3%). Appendix D shows detailed apportionments by agency.

Sector	2207 Report Spending Plan	Apportioned	Committed	Obligated	Expended
Security and Law Enforcement	\$3,243	\$2,976	\$2,264	\$1,431	\$213
Electricity	5,539	2,538	2,405	1,707	111
Oil Infrastructure	1,701	1,701	1,648	916	16
Justice, Public Safety, and Civil Society	1,038	825	542	269	14
Democracy	451	451	415	270	8
Education, Refugees, Human Rights, and Governance	259	259	229	48	8
Roads, Bridges, and Construction	370	270	246	123	0
Health Care	793	512	474	283	0
Transportation and Telecommunications	500	467	363	71	4
Water Resources and Sanitation	4,148	891	799	450	0
Private Sector Development	184	136	100	42	16
Admin Expense (USAID, CPA)	213	29	29	29	10
<b>Total by Sector</b>	<b>\$18,439</b>	<b>\$11,055</b>	<b>\$9,514</b>	<b>\$5,639</b>	<b>\$400</b>
Construction	\$12,406	\$5,815	\$5,519	\$3,720	-
Non-construction	5,582	4,789	3,580	1,649	-
Democracy	451	451	415	270	-
<b>Total by Program</b>	<b>\$18,439</b>	<b>\$11,055</b>	<b>\$9,514</b>	<b>\$5,639</b>	<b>\$400</b>

**Table 10: IRRF 2 Program Status (in millions) as of June 30, 2004**

## CPA Operating Funds

In addition to Iraq reconstruction, P.L. 108-106 provided funding for CPA daily operations, initially resourced from the P.L. 108-11 Iraq Freedom Fund (IFF). Tables 11 and 12 show CPA operations expenditures by category.

Throughout FY 2004, the CPA was under budget pressure because of rising mission requirements. In P.L. 108-106, the CPA was granted an operating budget of \$858 million, with additional funds reserved for the CPA-IG (\$75 million) and for CPA reporting requirements (\$50 million). The CPA's December 2003 estimate of its operating requirements was slightly over \$1.1 billion, which reflected a \$247 million shortfall against budgeted funding. This budget gap was resolved through various cost-cutting initiatives, including a reduction of Logistics Civil Augmentation Program (LOGCAP) and security requirements because of regional consolidation (\$44 million); a transfer of the Iraq Media Network requirement (\$96 million) to the DFI; personnel reductions (\$20 million); savings

from communications and IT (\$20 million); and other security cost-saving efforts (\$50 million).

Table 11 reflects CPA operating expenditures under P.L. 108-11, from the CPA's beginning until the passage of P.L. 108-106 in November. Table 12 reflects CPA operating expenditures from the passage of P.L. 108-106 through June 30, 2004.

Category	Approved	Funded	Obligated	Expended	% Obligated <sup>a</sup>	% Expended
Transportation	\$10.8	\$10.8	\$10.8	\$6.3	100%	58%
Supplies & Equipment	24.5	23.7	23.5	10.4	99%	44%
Communications/IT	73.1	70.5	69.6	37.8	99%	54%
LOGCAP	301.4	301.0	236.5	226.6	79%	75%
Personnel	90.7	85.6	85.6	72.4	100%	85%
Studies	9.0	9.0	9.0	6.8	100%	76%
Security	94.3	87.4	86.7	33.8	99%	39%
Media Network Program	94.0	85.7	84.0	63.1	98%	74%
<b>Total CPA Administrative Support-IFF</b>	<b>\$697.8</b>	<b>\$673.7</b>	<b>\$605.7</b>	<b>\$457.2</b>	<b>90%</b>	<b>68%</b>
<sup>a</sup> Percentage based on amount funded. Summary totals affected by truncation.						

**Table 11: CPA Operating Expenses IFF Support April-November 2003, as of June 30, 2004  
(in millions)**

Category	Approved	Funded	Obligated	Expended	% Obligated <sup>a</sup>	% Expended
Personnel	\$110.1	\$101.2	\$101.2	\$25.7	100%	25%
Security	257.2	178.4	178.4	57.2	100%	32%
External Direct Support	2.9	2.5	2.5	1.0	100%	40%
Logistics	368.3	365.3	321.5	123.0	88%	34%
Baghdad Facilities and Furnishings	3.8	1.9	0.1	0.02	05%	1%
Communications/IT	133.8	87.6	85.5	12.9	98%	15%
Iraq Media Network	96.0	0.0	0.0	0.0	0%	0%
Reporting	50.0	25.7	25.7	2.5	100%	10%
Other Activities	6.6	6.6	3.7	1.8	56%	27%
<b>Total FY 2004 Supplemental</b>	<b>\$1,028.7</b>	<b>\$769.2</b>	<b>\$718.6</b>	<b>\$224.1</b>	<b>93%</b>	<b>29%</b>
CPA-IG	\$12.1	\$12.1	\$10.5	\$1.5	87%	12%
<sup>a</sup> Percentage based on amount funded. Summary totals affected by truncation.						

**Table 12: CPA Operating Expenses FY 2004 November 2003 to June 30, 2004  
(in millions)**

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## **Iraqi Funds**

Iraqi funds available for reconstruction can be grouped into several categories: seized funds, vested funds, and funds deposited in the DFI (see Figure 4). Of the \$23.3 billion of Iraqi funds available through 30 June, 2004, \$20.1 billion (86%) had been obligated, and \$16.0 billion (69%) had been expended.

Seized funds were former Iraqi regime monies confiscated by coalition forces. Vested funds were frozen Iraqi money from the first Gulf War that were transferred to the CPA. Created by the CPA and recognized by UNSCR 1483 in May 2003, the DFI contains proceeds from Iraqi oil sales, repatriated assets from the United States and other nations, and deposits from Oil for Food program funds. The DFI now funds the Iraqi National Budget, primarily from current oil sales.

### ***Seized Funds***

As of June 30, 2004, coalition military forces had seized \$927 million of former Iraq regime funds, which were made available to the CPA for the benefit of the Iraqi people. As of June 30, 2004, \$774.4 million (84%) of seized funds had been obligated, and \$765.1 million (83%) had been expended. These funds were used primarily for:

- non-ministry repairs and humanitarian assistance
- Iraqi ministry operations
- the Rapid Regional Response Program (RRRP)
- the Commanders Emergency Response Program (CERP)
- fuel products (diesel, heating oil, etc.) for the Iraqi people

Appendix E provides a detailed listing of the uses of seized funds.

In addition to the \$927 million in currency, coalition military forces also confiscated and controlled some non-financial assets, such as real estate, motor vehicles, and jewelry. On June 18, 2004, those assets were turned over to the Iraqi Ministry of Culture.

### ***Vested Funds***

In response to a UN resolution passed after the first Gulf War, the United States froze Iraqi assets (UNSCR 661, August 1990; Presidential Executive Order 12817 of October 23, 1992). On March 20, 2003, the United States vested \$1.724 billion (81%) of the \$2.120 billion of its frozen Iraqi assets in the U.S. Treasury (Presidential Executive Order 13290) and facilitated their transfer to the CPA. These vested funds provided a vital source of money for relief and reconstruction during the initial stages of the American occupation.

Between April 10 and October 19, 2003, \$1.724 billion in vested funds was transferred from the Federal Reserve Bank in New York to CPA control in Baghdad. As of

June 30, 2004, \$1.687 billion (98%) had been obligated, and \$1.671 billion (97%) had been expended. These funds were primarily used for:

- Iraqi civil servant salaries, pensions, and individual relief payments (71%)
- Iraqi ministry operations (21%)
- repair and reconstruction (8%)

Appendix F provides a more detailed listing of fund expenditures.

Of the remaining balance of \$396.6 million in frozen Iraqi assets:

- \$208.6 million was transferred to the DFI—\$16.3 million in cash and \$192.3 million as UN repayment of loans originally initiated for the Oil for Food program.
- The U.S. government paid \$128 million in claims to third parties.
- The U.S. government holds \$60 million and expects to return it to the titleholders of those assets.

### ***Development Fund for Iraq***

As of June 28, 2004, the DFI had a liquid asset (cash) balance of \$6.641 billion. This was the difference between cash inflows of \$20.706 billion and expenditures of \$14.065 billion. Table 13 provides a more detailed listing of the DFI's sources and uses of funds.

As noted, the DFI was created by the CPA for the benefit of the Iraqi people and recognized by UNSCR 1483, on May 21, 2003. From the CPA's inception until June 28, 2004, the DFI was the CPA's primary financial vehicle to channel revenue from current Iraqi oil sales, unencumbered OFF deposits, and repatriated Iraqi assets to the reconstruction of Iraq. Originally, the DFI was funded primarily by unencumbered and excess UN Oil for Food money and non-U.S. repatriated frozen Iraqi assets. Now Iraq's oil revenues provide the vast majority of the fund. With the June 28, 2004, assumption of sovereignty, the Iraqi Interim Government (IIG) began administering the DFI.



Sources	Amount	Percentage
Oil Revenue	\$11,362	54.88%
Oil for Food	8,100	39.12%
UNSCR 1483–Repatriated Funds	1,039	5.02%
Other Deposits	146	0.71%
Interest Income	41	0.20%
Vested Assets	16	0.08%
<b>Total – Sources – DFI</b>	<b>\$20,706</b>	<b>100.00%</b>
Uses	Amount	
Ministry of Finance	\$9,360.38	
Ministry of Oil	2,172.22	
Ministry of Electricity	786.66	
Ministry of Trade	481.12	
Commanders Emergency Response Program	370.47	
Rapid Regional Response Program	266.55	
Program Management Office	83.97	
State Oil Marketing Organization	82.01	
Office of Security Cooperation	61.15	
Ministry of Interior	54.04	
Regional Projects–CPA South	47.75	
Central Bank of Iraq	40.57	
Ministry of Agriculture	31.25	
Ministry of Health	19.29	
Coalition Military Assistance Training Team	19.08	
CJTF-7	14.31	
Comptrollers Office	5.76	
Ministry of Planning	5.55	
Baghdad Central	3.29	
CPA Front Office	3.19	
Communication Support Office	3.15	
Ministry of National Security & Defense	3.13	
Ministry of Communications	2.08	
Ministry of Transportation	1.70	
Ministry of Education	1.10	
Ministry of Justice	1.00	
Ministry of Defense	0.56	
Ministry of Culture	0.02	
Ministry of Public Works	0.02	
Governance	0.01	
Ministry of Industry and Minerals	0.01	
Private Sector Development	0.01	
<b>Total – Uses – DFI</b>	<b>\$14,065.25</b>	

**Table 13. Development Fund for Iraq, Sources and Uses of Funds as of June 28, 2004 (in millions)**

Table 13 breaks down the sources and uses of DFI funds as of June 28, 2003. The majority of DFI cash inflows are derived from Iraqi oil revenues, although 5% of all oil sales are remitted to the UN Compensation Committee for war reparations resulting from the first Gulf War. As of June 30, 2004, the UN had transferred \$8.6 billion in surplus funds from the OFF escrow account to the DFI. Although the OFF escrow account no longer receives proceeds from oil sales, funds remain in the account to satisfy letters of credit for payment of OFF goods still being delivered to Iraq under outstanding contracts. The amount of further transfers from the OFF escrow account to the DFI is dependent on how many outstanding contracts ultimately are executed. Escrow funds backing contracts that ultimately expire without delivery will be transferred to the DFI. As of July 22, 2004, the UN Treasurer had not provided an estimate of remaining funds in the OFF escrow account. The UN auditors' report is expected in August.

The DFI is the primary funding mechanism for the operation of the IIG. In addition to government operations, the DFI has funded both relief efforts and reconstruction projects. Various projects reviewed by the Program Review Board (PRB) and approved by the CPA Administrator were integrated into the overall reconstruction effort. The 2004 Iraqi National Budget (INB) called for funding of \$2.5 billion in reconstruction projects from the DFI.

On March 31, 2003, the UN transferred an additional \$2.0 billion in unencumbered OFF funds to the DFI. An additional \$500 million was transferred on April 19, 2003, bringing the transferred total to \$8.1 billion. Of those funds, \$500 million was allocated to the Commanders Emergency Response Program (CERP) and the new Accelerated Iraq Reconstruction Program (AIRP).

### **Commanders Emergency Response Program**

The CERP is a program that coalition military commanders can quickly use to direct money to meet humanitarian, relief, and reconstruction needs in their geographic areas of responsibility. According to the 2207 Report of July 2, 2004:

- The CERP continues to be a very effective program enabling quick responses to urgent humanitarian relief and reconstruction requirements, which has built trust and support for the United States at the grassroots level. This program has allowed the local population in various communities to see immediate results. Since the April report, CPA, in consultation with the appropriate Iraqi ministries, provided an additional \$131 million of DFI resources to fund CERP. In total, \$680 million has been provided to date for CERP from three sources: Iraqi seized assets (\$179 million), the DFI (\$361 million—including the \$131 million from additional OFF revenue), and U.S. appropriated funds (\$140 million).
- As of June 19, 2004, the local commanders have spent \$364.6 million in CERP funds on over 27,600 small projects. These projects include repairing and refurbishing water and sewer lines, cleaning up highways by removing waste and debris, transporting water to remote villages, purchasing equipment for local police

stations, upgrading schools and clinics, purchasing school supplies, removing ordnance from public spaces including schools, and refurbishing playgrounds, youth centers, libraries, other recreational facilities, and mosques.

Table 14 provides a summary of how local commanders have spent CERP resources through June 19, 2004:

Project Type	Number of Projects	Amount
Education	4,946	\$62.4
Electricity	792	8.2
Health	1,610	23.2
Other Public Services	5,134	66.8
Police/Security	4,029	87.5
Reconstruction	2,814	34.7
Rule of Law/Government	1,431	15.9
Social Programs	752	6.6
Transportation	310	5.4
Water/Sewer	2,270	30.5
Other projects	3,534	23.4
<b>Total</b>	<b>27,622</b>	<b>\$364.6</b>

**Table 14. Status of CERP Projects and Funding through June 22, 2004 (in millions)**

### **Accelerated Iraqi Reconstruction Program (AIRP)**

The Accelerated Iraqi Reconstruction Program (AIRP) was designed to provide funds for high-impact, high-visibility projects in selected cities and areas that offered high levels of employment opportunities for Iraqis. Approved by the CPA Administer in late April, the program had employed over 11,000 Iraqis by early July. In conjunction with the Iraqi ministries, the CPA allocated \$500 million from the DFI (Program Review Board PRB #685) to fund \$116.2 million in additional CERP projects and \$383.8 million for the AIRP program. The AIRP used the money to fund projects from various programs, including the Rapid Regional Response Program, the Local Governance Fund, the Program Management Office (PMO), as well as CERP projects not funded directly through CERP allocations. The larger AIRP projects (over \$100,000) have typically been associated with improvements in potable water access, sanitation, health, education, and transportation. Many of them have been initiated in key cities such as Baghdad, Falluja, Tikrit, Samarra, Baquba, Najaf, Basra, Diwaniyah, Ramadi, and Mosul. Projects were identified through a joint effort of the CPA, Iraqi ministries, and local governments (governors, provincial councils, and city councils) and were designed to generate local employment. The majority of projects will be awarded directly to local Iraqi firms for design and construction.

### **DFI Payment Obligations**

The June 28, 2004, transfer of sovereignty to the IIG transferred authority over the DFI from the CPA to the IIG. This transfer required the establishment of new administrative procedures to ensure the timely execution and payment for contracts issued by the CPA and funded with DFI funds before the transfer. On June 15, the Iraqi Minister of Finance designated authority to the Director of the Program Management Office (now the Project and Contracting Office) to administer those contracts funded by the DFI entered into before June 28 and not secured by a letter of credit, up to a limit of \$800 million. The Ministry of Finance has agreed to increase this limit as necessary to ensure that all contracts entered into by the CPA on behalf of the Iraqi Ministries are paid. A sub-account of the DFI account at the Federal Reserve Bank of New York, “Central Bank of Iraq/Development Fund for Iraq/Transition,” was created by Ambassador Bremer and funded by the Ministry of Finance to ensure transparency in paying these outstanding CPA obligations. To ensure that CERP, Local Governance Programs, and other programs funded by the DFI did not issue new contracts after June 28, 2004, unobligated balances were returned to the DFI account at the Central Bank of Iraq. To facilitate the operations of these programs, the Minister of Finance, if needed, will disburse funds into an account at the Central Bank of Iraq, from which the Project and Contracting Office will be able to disburse funds for ongoing contracts in the field (for example, AIRP and the Rapid Regional Response programs).

### **Other Iraqi Potential Repatriated Funds**

In addition to the U.S. freeze of Iraqi assets, other UN members froze approximately \$3.7 billion in funds.<sup>17,18</sup> Table 15 outlines the status and flow of these non-U.S. controlled Iraqi frozen assets. Of the total, DFI reported receipt of \$847 million as of June 28, 2004, and the U.S. government has received reports that some countries have paid \$750 million<sup>19</sup> to fulfill third-party claims against Iraq. The approximately \$2.1 billion remaining as of June 2004 is further encumbered by unpaid third-party claims and other offsets to various Iraq reconstruction programs. The total of these claims and offsets is currently estimated to be as high as \$955 million.<sup>20</sup>

The remaining balance of \$1.1 billion of non-U.S. funds is a potential additional resource for the reconstruction effort in Iraq. Substantial obstacles must be overcome to generate the realization of these funds, including:

- required legislative initiatives by some host countries to allow for funds transfer
- extensive due process procedures by various claimants in some countries
- lack of political will

Assets	Amount
<b>Initial estimate of total non-U.S. frozen Iraqi assets</b>	<b>\$3,687<sup>a,b</sup></b>
Assets transferred to DFI	(847)
Remitted to other programs or disputed	(750) <sup>b</sup>
Estimated balance of un-repatriated frozen assets	2,090 <sup>b</sup>
Host country declared offsets to current balance	(955) <sup>b</sup>
<b>Outstanding Balance</b>	<b>\$1,135<sup>b</sup></b>
<sup>a</sup> U.S. Treasury estimate of \$3,687 million as of March 17, 2004	
<sup>b</sup> While estimates are based on the best governmental and international sources, given the complexity of the issues they should be considered approximate.	

**Table 15: Non-U.S. Controlled Iraqi Frozen Assets (in millions)**

Estimates of the amount of other frozen funds that may be transferred from host countries to the Iraqi government are highly speculative.

### ***Oil for Food (OFF)***

From December 1996 until November 2003, the UN Oil for Food (OFF) program provided vital humanitarian assistance to the Iraqi people through the sale of over \$60 billion in oil. Authorized by the UN Security Council, this program originally used the proceeds of Iraqi oil sales to provide humanitarian goods for the Iraqi people and later to also purchase oilfield spare parts. OFF allowed the Iraqi government to award contracts under the approval and monitoring of the UN security council 661 Sanctions Committee.

UNSCR 986 (April 1995) structured the program and authorized the use of Iraqi oil sales for:

- program administration costs
- contributions to the compensation fund established for war reparations
- the UN Iraqi weapons inspection program (UNMOVIC)
- reimbursement of the UN for funds borrowed to provide relief before oil sales began (UNSCR 778)
- relief efforts in the three northern governorates of Iraq

Table 16 outlines the percentage of oil sales designated for the various escrow accounts and the total amount either deposited in or expended from those accounts. Since the beginning of the program until December 2002 (the most current UN information).

The program's last oil sales were in March 2003, just before Operation Iraqi Freedom began. Food distribution was interrupted during hostilities. On May 22, 2003, the UN lifted its sanctions and gave the OFF program six months to conclude operations. On November 21, 2003, the program officially ended.

Individual Escrow Account	Percentage of Oil Revenues	Total Expenditures (or deposits)
Compensation Fund	25.0% <sup>b</sup>	\$17,183
South and Central Iraq	59.0% <sup>a</sup>	\$34,385
Three Northern Governorates	13.0%	\$6,065
UN Administrative Costs	2.2%	\$765
UNMOVIC	0.7%	\$445
UNSCR 778	N/A <sup>c</sup>	\$200
<sup>a</sup> percentage for South and Central Iraq was originally 53.034%, raised to 54.054%, and then 59.034% in 2000. <sup>b</sup> Compensation fund percentage was originally 30% and lowered to 25% in 2000. <sup>c</sup> Repayment of UNSCR 778 funds was set at \$10 million a quarter (suspended Dec. 1999 to Dec. 2000)		

**Table 16: UN Oil For Food Program (in millions)**

OFF was the largest program of its kind that the UN has ever initiated. The UN allocated some \$1.2 billion from oil sales to administer the OFF program and fund the UN monitoring and verification programs.

A May 2003 Congressional Research Service report estimates that “as the war began, \$9 billion worth of humanitarian goods were in the process of being delivered or in production, and about \$2.7 billion remained in the escrow account unallocated.” Until the UN releases the final OFF audit, these figures remain estimates. As the OFF program was ending, the UN transferred unencumbered and unused funds from the OFF to the DFI. As of June 28, 2004, \$8.1 billion had been transferred. On June 30, an additional \$500 million was transferred to the DFI. While no information on the OFF balance has been officially released since December 2002, it is clear that the bulk of funds has been transferred. Nevertheless, remaining funds may still be significant.

These were some of the key lessons learned from the OFF program:

- Throughout its existence, the OFF program was plagued with problems coordinating the fundamental process of contracting, shipping, and receiving the goods required for its execution. The lack of adequate, timely, and detailed information on shipments and receipts created a backlog of unexecuted letters of credit, which had been one of the sources of the \$8.1 billion in cash transfers to the DFI (as of June 28). This backlog problem was exacerbated by contracts that member countries placed on hold because of disputes as to whether items had military value.
- After assuming control of Iraq, the CPA began a contract review to eliminate or modify “overpriced” OFF contracts alleged to have funneled funds to the previous regime. Because of the effort required to establish a new system of food distribution, the CPA decided to use many of the existing OFF contracts to service the Iraqi food distribution network. The CPA was managing OFF contracts with

payment from residual OFF funds. The new Iraqi government will have to determine whether to use existing OFF contracts or develop new ones. If it terminates the OFF contracts, it will gain access to any residual OFF funds.

- The OFF program has come under extensive criticism for allowing diversion of oil revenue to the previous regime. The UN and the IIG are currently investigating those charges.
- The CPA-IG has already audited one part of OFF activities conducted under CPA authority, auditing the cash controls procedures in the Erbil Office of Project Coordination (OPC). The CPA-IG will conduct another audit of the OFF program during the CPA's management from November 21, 2003, until June 28, 2004.

### ***Iraq National Budget***

The Iraq National Budget (INB) is a blueprint for virtually all of the money needed to fund government operations through 2007. Unless supplemented by additional U.S. and international donor aid, it will fund almost all reconstruction activities after 2007. The Iraqi government has also assumed the primary role in prioritizing reconstruction projects and coordinating cooperation between the U.S., Iraq, other donor nations, international organizations, and Iraqi ministries. Iraqi oil sales will fund the INB: 98% of 2005 revenues are projected to come from these sales.

The INB's budget revenues for 2005 and 2006 are projected to be approximately \$20 billion annually, assuming that security and infrastructure problems for the oil industry are fixed by 2005. The March 2004 INB expenditures were set at this level and called for \$19.9 billion in spending. The depressed revenue total for 2004 of \$14.5 billion created a budget deficit of \$5.4 billion, which was funded by the transfer of \$5.6 billion in OFF funds before March 2004. The additional OFF transfer of \$2.5 billion in March is reflected in a draft Amended June 2004 Budget that calls for another \$2.5 billion in spending for a total of \$22.4 billion in expenditures. The bulk of OFF money has now been transferred; future budgets cannot rely on this source of funding. A limited amount of residual OFF funds remains. The exact total is not available because the UN has not provided recent figures. The size and potential deficits associated with future Iraqi budgets depend largely on the production capacity of Iraq's oil industry, its ability to bring oil to the foreign market, and the price of oil.

Appendix G breaks down the 2004 budget by ministry and major expense category. The 2004 budget was influenced by the ready availability of DFI funds as a way to implement vital infrastructure repairs. Over \$2.5 billion (13%) of the original 2004 budget was used for reconstruction projects, chiefly: electricity, \$900 million; housing, \$233 million; transport, \$212 million; oil, \$200 million; education, \$170 million; public works, \$166 million; and water resources, \$128 million. The amended June budget added \$315 million to the electricity ministry and \$460 million to the oil ministry



These are some other significant observations about the budget:

- Over 30% of expected revenues and 21% of expenditures are designated for the food distribution (\$2.6 billion) and fuel import (\$2.1 billion) programs.
- One billion dollars (4.5%) are designated for security.
- The Health Ministry has over \$1.03 billion (4.6%) in spending.
- Current expenditures for Iraqi civil servant salaries make up approximately 12% of the June budget; more than one million Iraqis are employed by the Iraqi Interim Government.

To provide more assistance for reconstruction, Iraq needs to increase oil production and restructure social subsidies. Because this will take time and must overcome significant challenges, U.S. and donor funds are critical in the short- and medium-term (2004-2007).

### ***Donor Funds***

The magnitude of the relief and reconstruction effort in Iraq has always dictated a multi-national approach. The UN, United States, and coalition partners have called on the nations and people of the world to help, and they have responded. Donor funds can be grouped into three broad categories:

- **Humanitarian Aid:** provided in response to a March 2003 UN appeal for immediate humanitarian aid
- **Bilateral Assistance:** supplied by individual countries and non-governmental organizations direct to Iraq and coordinated before June 28, 2004, by the CPA
- **Multi-lateral coordinated programs:** governmental and international organizational aid donated through a coordinated program administered by multi-lateral organizations

### **Humanitarian Aid**

In the immediate wake of Operation Iraqi Freedom, various countries and UN organizations provided \$849 million<sup>21</sup> in humanitarian aid through December 2003 (excluding U.S. and Oil for Food assistance).

### **Bilateral Assistance**

At the October 2003 Donors Conference in Madrid, non-U.S. donor nations pledged \$13.5 billion for the medium-term reconstruction of Iraq (2004-2007). Individual countries pledged approximately \$8 billion in aid. Appendix I provides a comprehensive list of those pledges. These funds were a mixture of direct or bilateral aid and those funds that would be channeled through multi-lateral organizations.



Of the \$8 billion total, the following countries or country groups pledged these amounts:

- Japan: \$4.9 billion (61%)
- Gulf States: \$1.3 billion (16.4%)
- Major European coalition partners: \$900 million (11.3%)
- Other selected U.S. allies \$480 million: South Korea, Canada, Australia, and Turkey (6%)

Although most of the above-pledged assistance will flow through multi-lateral channels, the DoS estimates that independent bilateral aid is approximately \$381 million (June 30, 2004, estimate). Japan is the largest bilateral donor, with over \$200 million in bilateral contributions and \$490 million deposited in the International Reconstruction Fund Facility for Iraq (IRFFI). Japan's contributions have included 12 water tankers, 1,150 police vehicles, 70 fire trucks, 27 mobile electricity substations, 30 compact water treatment units, and rehabilitating four hospitals and four power stations. Other major bilateral donors include the United Kingdom, Spain, and Canada.

#### **Multi-lateral Coordinated Programs: International Reconstruction Fund Facility for Iraq**

The Madrid Donors Conference established IRFFI as the primary means of channeling international aid to Iraq. Total commitments (through 2007) to the IRFFI currently equal \$1,045 million, with initial 2004 commitments of \$1,029 million. As of July 1, 2004, \$849.3 million has been deposited, including \$10 million in U.S. aid. Adding the \$381 million in non-U.S. bilateral aid to the IRFFI deposits gives a total of \$1,230 million in reconstruction assistance from non-U.S. donor countries through June 2004.

The IRFFI comprises two trust funds run by the United Nations Development Group (UNDG) and World Bank. Each trust fund has developed a strategic framework for its operations that has been reviewed by the Iraqi Strategic Review Board (ISRB), the Ministry of Planning and Development Cooperation (the Ministry), and a committee of donor countries. The IRFFI will fund projects outside the CPA/PCO program; the ISRB and the Ministry will act as a central point of coordination between each organization.

Appendix H provides detailed information about both the UNDG and World Bank trust funds. Initial UNDG funding consists of \$231 million allocated across six UN-defined sectors. The World Bank has identified three main rehabilitation projects that total between \$200-\$220 million in spending. As a second objective, the World Bank has developed training programs to bolster Iraqi institutional capacity. A third objective is to develop economic reform, social development, and improved public sector management in Iraq. Seminars and other vehicles are being used to aid Iraq's transition to a liberal, diversified market economy with a developed social protection system.

### ***World Bank, International Monetary Fund, and Donor Loan Programs***

On the eve of the Donors Conference in Madrid, the World Bank and International Monetary Fund (IMF) announced potential assistance packages worth between \$5.5 and \$9.25 billion. Two-thirds of the pledges were loans by the IMF (\$3 billion)<sup>22</sup>, World Bank (\$2.5 billion), and the government of Japan (\$3.5 billion). The World Bank currently envisions an initial lending envelope of \$500 million from the International Development Association (IDA) and \$500 million from the International Bank for Reconstruction and Development (IBRD) over FY 2004 and FY 2005. For the next two years, the IMF has pledged an initial \$850 million in emergency post-conflict assistance and follow-up assistance loans of \$850–\$1,700 million. There are several major obstacles before either can loan any money:

- Iraq needs a security environment that will allow the World Bank and IMF officials to safely travel to projects within the country.
- A de facto government with viable authority must be in place.
- Iraq must pay arrears to both the World Bank and IMF.

The assumption of sovereignty by the IIG on June 28, 2004, should remove one of these obstacles. Because the IIG is in a financial position to pay its arrears to both organizations, significant assistance by the World Bank and IMF will be dependent on the security environment within Iraq. Initial assistance may be possible by Fall 2004.

Although the World Bank expects to lend an additional \$2–\$4 billion by 2009 beyond its initial set of loans, subsequent lending is “predicated on an optimistic scenario of improvements in political stability and security, rapid economic recovery (including the oil sector), and generous debt relief,” according to the World Bank interim strategy report. This suggests that the World Bank loans may be lower than the Madrid total. The IMF shares the same concerns and may not provide the full amount pledged in Madrid without a sound macroeconomic framework and government commitment to key structural reforms in place. Assuming that both initial emergency assistance loan packages from the IDA (\$500 million) and IMF (\$850 million) will be approved, this still leaves over three quarters of the announced pledged loan amount (\$5.5 billion) subject to discretionary disapproval.

In addition to the World Bank and IMF loans, the government of Japan has indicated that \$3.5 billion of its \$4.9 billion in pledged bilateral aid will be concessionary loans. The Japanese government has never loaned money to countries that have received international debt reduction. Although such a precedent may be disregarded, it calls into question whether the \$3.5 billion (over 40% of all bilateral pledged aid) will be forthcoming.

### ***The Challenge of Iraq’s External Debt***

Iraq’s huge external debt poses a crucial challenge. The 2004 revised budget schedules \$453.3 million for payment for arrears to the World Bank and IMF. As of early June, Iraq is in arrears to the IMF for \$80.8 million and \$97.7 million to the IBRD. Also, to access the

full spectrum of IMF loans already pledged, Iraq needs to increase its IMF quota. This will require an additional \$252 million, although Iraq can borrow back this fee from the fund almost immediately.

The amount of interest and principal that Iraq must pay will affect its ability both to secure additional donor loans from the World Bank and IMF to create internally generated investment funds.

The U.S. government estimates that Iraq owes \$120–\$125 billion in foreign debt to other governments and market entities. The Paris Club, an informal organization created to facilitate debt renegotiation, has taken the lead in developing a debt reduction package that will have a great impact on the reconstruction of Iraq. Each 10% difference on principal reduction equates to approximately \$625 million annually in interest payments, assuming a nominal 5% rate and \$125 billion in total debt. The effect of this difference on principal repayment can easily exceed \$1 billion per year after the grace period on its payment expires. Japan is the largest bilateral donor nation, having pledged \$3.5 billion in loans. Japan is also a substantial creditor to Iraq.

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## **Data Clarification**

The CPA-IG compiled data on the sources, uses, and status of Iraq reconstruction funds from the OMB, DoD, CPA, U.S. Army, DoS, USAID, Treasury, USTDA, Broadcasting Board of Governors (BBG), IMF, and the World Bank. The CPA-IG analyzed the data for reasonableness and consistency across sources of data. Except for the audit of the DFI management and controls, the CPA-IG did not review or audit the processes, controls, or systems in place at the providing agency or organization. The CPA-IG accepted the validity of the data provided. The CPA-IG believes that the presentation of “Sources and Uses of Funds” in this report is a reasonable compilation of the status of Iraq relief and reconstruction funding through June 30, 2004, or the transfer of sovereignty to the Iraq Interim Government.

# Contracts

## Overview

Public Law 108-106 requires the Coalition Provisional Authority Inspector General (CPA-IG) to report on major contracts and other agreements that the CPA enters into with any public or private sector entity for rebuilding Iraq's infrastructure, reestablishing Iraq's political or societal institutions, or providing products or services to the people of Iraq. The CPA-IG must report this specific information about contracts or other agreements:

- the amount of the contract
- a brief discussion of the scope
- the process the CPA used to identify and solicit potential contractors
- a list of potential contractors
- justification and approval for using other than full and open competition

(Contract data required by Public Law 108-106, Section 3001 (i)(1)(F), is presented in Appendix J.)

For the March 30, 2004, Quarterly Report, the CPA Contract Support Office provided the CPA-IG with contracting activity data. The CPA-IG did not have an opportunity to review or audit the data before the Report's release. As part of the data-gathering effort for the July 2004 Report, which began in April 2004, the CPA-IG attempted to verify the accuracy of the reported contract information and discovered numerous discrepancies. As a result, the CPA-IG conducted a review of CPA major contracts valued at \$5 million or more. Specifically, CPA-IG auditors obtained and verified the reported information related to contracts, delivery orders, task orders, and modifications from the Department of Defense (DoD), Department of State (DoS), and the U.S. Agency for International Development (USAID) contracting offices.

## Competition

In this section, contracts have been analyzed according to two parameters: the number of contracts issued and the total value of contracts issued.

To date, 164 verified contracting actions valued at \$5 million or more have been issued in support of Iraq reconstruction. These contracting actions include contracts, delivery orders, purchase orders, and task orders:

- 28 were issued without full and open competition and required justification and approval documentation.
- 2 were small business set-asides, which did not require full and open competition; therefore, they did not need justification and approval documentation.

- 5 used Iraqi funds, which are not subject to competition under the Federal Acquisition Regulation (FAR).

Only 21 of these contracting actions required justification and approval for using other than full and open competition. Seventeen of these contracting actions were sole source and had the proper justification and approval. The other four were limited-competition contracts; they are still awaiting approval from the Deputy Assistant Secretary of the Army for Policy and Procurement.

The total value of a contracting action is based on the maximum potential work that can be performed if all of the contract's options are exercised. Funds are then obligated, or set aside, to ensure that money is available when the work is performed under a specific contracting action.

Some of the contracting actions were indefinite delivery indefinite quantity (IDIQ) contracts. The total value of an IDIQ contract is based on a ceiling, but the ceiling amount does not guarantee the final amount that the contractor will receive. The contractor receives payment only for work performed on the task orders issued under the overall IDIQ contract. For example, the Restore Iraqi Oil contract had a ceiling amount of \$7 billion, but when the contract was terminated, only \$2.4 billion had been obligated under task orders.

Tables 17 and 18 detail the number of major contracting actions issued in FY 2003 and FY 2004, respectively. Based on the total number of major contracting actions issued, most awards were competitive.

Competition Type	Number
Full & Open Competition	28
Sole Source	17
Limited Competition	3
<b>Total</b>	<b>48</b>

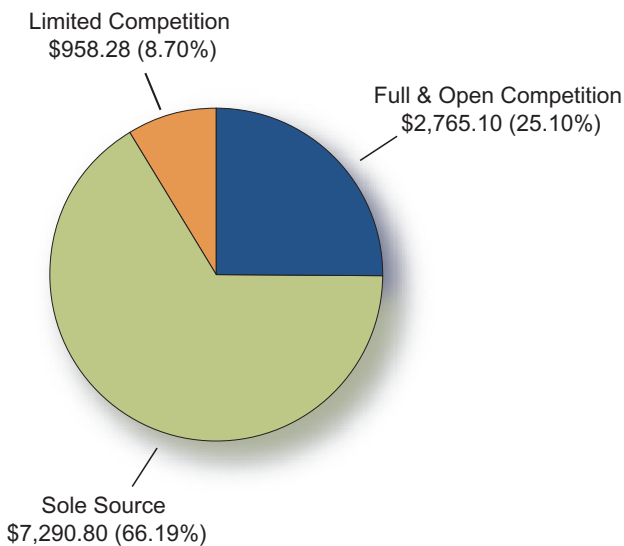
**Table 17: Analysis of Major Contracts Issued in FY 2003**

Competition Type	Number
Full & Open Competition	108
Sole Source	7
Limited Competition	1
<b>Total</b>	<b>116</b>

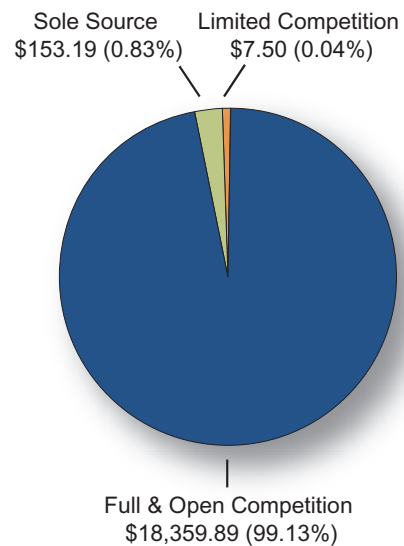
**Table 18: Analysis of Major Contracts Issued in FY 2004**

Figure 4 shows the proportion of full and open competition, sole source, and limited competition contracting actions for FY 2003 and FY 2004, based on total value. Full and open competition contract awards increased from 25.10% of the total value of contracting actions awarded in FY 2003 to 99.13% of the total value of contracting actions awarded in FY 2004.

**Competition Types by Value of Major Contracts Awarded FY 2003  
(in millions)**



**Competition Types by Value of Major Contracts Awarded FY 2004  
(in millions)**



**Figure 4: Analysis of Contract Competition Types for FY 2003**

## Data Integrity

For this Report, the CPA Contract Support Office provided data on contracting actions issued by award number and also provided additional information, such as date of award, scope of work, total value of the contract, and amount obligated. An initial review of this data identified a number of discrepancies, including:

- duplicate contract award numbers
- omissions of awarded contracts
- scope of work and contract values that did not correspond to the contract awards.

Also, there was no central repository for the contracting actions issued in support of Iraq relief and reconstruction efforts.

As a result, the CPA-IG alerted the CPA about the discrepancies through a draft management letter. The CPA provided the CPA-IG with the corrective actions it was taking at the time the CPA-IG issued the draft management letter to ensure the integrity of the

data. The steps taken by the CPA included issuing standard procedures to verify contracting actions, instructing contracting officers to modify contracts to correct duplicative contract numbers, and establishing a standard reporting template. The CPA-IG is satisfied with the corrective actions that CPA contracting is taking; however, the CPA-IG will continue to monitor and verify the contract data as it is collected for the October 2004 Report.

The full extent of the discrepancies in the data provided is not known. According to the data, 178 contracting actions valued at \$5 million or greater were awarded for Iraq relief and reconstruction. However, of these 178 contracting actions, CPA-IG auditors were able to verify only 164 contracting actions. CPA-IG auditors could not verify 14 of the contracting actions.

CPA-IG auditors attempted to verify the 178 contracting actions by requesting copies of the contracts and comparing them to the reported data. However, the CPA contracting office in Iraq was unable to locate 14 of the contracts requested by the CPA-IG. Table 19 shows the 14 contracting actions that the CPA could not locate and, therefore, that the CPA-IG could not verify.

Contract No.	Scope of Work	Award Date
DABV01-03-C-0001	Telecommunications Services	07/05/03
DABV01-03-C-0002	Logistics Support New Iraqi Army	07/09/03
DABV01-03-C-0006	Security for GOIC	08/12/03
DABV01-03-M-0148	Cesspool Trucks	12/15/03
DABV01-04-1-0001	Jumpstart Project	04/07/04
DABV01-04-C-0012	Ad Campaign to Educate Iraqis	03/05/04
DABV01-04-C-0038	Rehab of PTCH & Schuaibah Plants	02/28/04
DABV01-04-C-0082	MOI Distribution System	05/11/04
DABV01-04-C-0086	Investigation of Oil for Food	Not Available
DABV01-04-C-0104	BPSA Life Support	05/15/04
PD/CO144/01/06	Independent Inspection	12/31/03
W914NS-04-D-0021	CMS Fully Funding Requirement Mod.	05/17/04
W914NS-04-C-0100	Body Armor	02/07/04
W914NS-04-C-0108	Base Camp Support	05/07/04

**Table 19: Contracts Not Located or Reviewed by CPA-IG**

## Data and Analysis

Table 20 breaks out contracting actions by agency. The 164 contracting actions verified by the CPA-IG represent more than \$29.5 billion in Iraq relief and reconstruction support. More than \$8.9 billion has been obligated against contracting actions that the CPA-IG received before the July 1, 2004, cut-off date—approximately 30.4% of the total dollar value.

Agency	No.	Total Value	Amount Obligated	% of Total Value	% of Total Contracts
Army Contracting Agency	7	\$520,188,303	\$231,217,319	1.76%	4.27%
Air Force Center for Environmental Excellence	15	481,227,510	481,227,510	1.63%	9.15%
Army Material Command	4	760,745,158	589,410,832	2.58%	2.44%
Commander U.S. Army CECOM, AQC Center	1	51,878,370	18,146,050	0.18%	0.61%
Coalition Provisional Authority	37	721,910,416	611,979,157	2.44%	22.56%
Defense Contracting Command—Washington	6	311,279,976	192,799,120	1.05%	3.66%
Defense Contract Management Agency	3	61,159,501	61,797,305	0.21%	1.83%
Defense Information Systems Agency—National Capital Region	1	15,590,578	15,590,578	0.05%	0.61%
Defense Information Technology Contracting Office	2	56,675,125	56,627,136	0.19%	1.22%
Naval Facilities Engineering Command	3	1,700,000,000	47,743,394	5.76%	1.83%
Pentagon Renovation Office	7	366,688,250	38,700,000	1.24%	4.27%
State Department	3	6,854,534,967	191,713,552	23.21%	1.83%
U.S. Army Tank-automotive Armaments Command	2	267,832,136	128,635,630	0.91%	1.22%
U.S. Army Corps of Engineers	60	13,939,414,186	4,640,462,422	47.20%	36.59%
U.S. Agency for International Development	13	3,425,654,649	1,672,271,096	11.60%	7.93%
<b>Total</b>	<b>164</b>	<b>\$29,534,779,124</b>	<b>\$8,978,321,100</b>	<b>100.00%</b>	<b>100.00%</b>

**Table 20: Major Contracts Awarded (by Contracting Office)**

Also, 87 actions on major contracts were identified after the data cutoff date for this report. CPA-IG auditors are currently working to verify this data for our next report. The auditors have determined that \$1.34 billion has been obligated against them.

Appendix J provides additional detail on these unverified contracting actions.



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## **Estimate-to-Complete**

The CPA-IG has not reviewed the current project estimates cited in the last OMB Section 2207 report (July 2, 2004). Current program and project estimates provided in that report are available at <http://www.whitehouse.gov/omb/legislative/index.html>. As part of the next phase of audits, the CPA-IG will review program results by sector and how associated project cost estimates-to-complete are prepared. CPA-IG will provide results of the review in the next Quarterly Report.